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canberra times: q&a

Q 1: If an investment property is an 'Off The Plan' purchase due to be completed in the next financial year (ie - actually have tenants / income from the property next financial year) then am I still able to claim the Stamp Duty if I have paid it in this financial year? I would have thought not as the building is not yet completed and there are no tenants or income, so how can it be classified as an investment property?

Withheld, Canberra

A 1: As with all tax related issues it is important to have a Registered Tax Agent look into your specific financial situation to determine appropriate tax deductions. The general understanding here though is that where a property is purchased in the ACT and it is intended that the property is to be used for investment purposes (ie rented out to tenants for an income), then expenses incurred in gaining or producing that tax assessable income can be claimed as a tax deduction. 2 points to clarify here are:

- As land in the ACT is held under a leasehold arrangement (rather than a freehold arrangement in the Australian states) then stamp duty paid is treated as a “revenue” expense item and so claimed as a tax deduction to offset income, rather than a “capital” expense item which comes into the calculation when working out any capital gains tax payable should the property eventually be sold. In the latter the stamp duty paid is added to the property purchase price so reducing capital gains tax to pay in the future.
- The expense items can be claimed as a tax deduction even in a year where no income is earned. This is generally so long as there is a clear connection between the expenses paid and the view to earning an income from those expenses paid in the future. In the case of paying for stamp duty for an off the plan purchase, then it is possible that you pay for the stamp duty and claim it as a tax deduction one year, but then a few years later when the property is finally built, that you then receive some assessable income.

Again, you need to make sure you do not fall foul of any rules when applying these financial strategies. So, it is worthwhile to seek the services of a Certified Financial Planner for overall strategy and investment advice and the services of a Registered Tax Agent for specific tax related advice.

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Q 2: Is it possible to avoid getting hit with Capital Gains Tax if I am to rent out my investment property? If so, how do I go about doing this?

Withheld, Canberra

A 2: The short answer here is yes, it is possible to arrange your financial situation to help reduce the capital gains tax payable when selling an investment property. With the right planning and circumstances the capital gains tax payable can be reduced to nil.

Generally, the strategies you would adopt in this situation would be to either offset any capital gain with realizing appropriate capital losses, or more commonly, to sell the investment property in a financial year (generally just after retirement) where you can be considered substantially self employed and therefore eligible to claim a tax deduction for a personal concessional contribution to superannuation.

There are certainly issues to consider here and a Certified Financial Planner can help you work through how the various strategies could work in your situation.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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