

## Avoiding Common Mistakes. Supplied By The A.T.O.

### Construction Costs

Certain types of construction – including extensions, alterations and structural improvements – can be claimed as capital works deductions. However, the land on which a rental property is constructed cannot be claimed. Instead, the land forms part of the cost for capital gains tax purposes. Deductions can be claimed for the decline in value of some types of depreciating assets in residential rental properties (for example, curtains, blinds, dishwashers, refrigerators, stoves, television sets and hot water systems). However, construction costs are not depreciating assets.

### Common Mistakes Include:

Claiming the cost of the land component as part of the cost of constructing the rental property. Claiming construction costs as a decline in value of depreciating assets deduction instead of a capital works deduction. For more comprehensive information on residential property items and whether they are depreciating assets or capital works you can refer to [www.ato.gov.au](http://www.ato.gov.au).

### Initial Repairs And Capital Improvements

Initial repairs to rectify damage, defects or deterioration that existed at the time of purchasing a property are capital expenditure and may be claimed as capital works deductions over either 25 or 40 years, depending on when the repairs were carried out. Capital improvements (such as remodeling a bathroom, or adding a pergola) should also be claimed as capital works deductions. A common mistake is to claim initial repairs or capital improvements as immediate deductions.

### Interest

Taxpayers sometimes use their loan facility for both investing and private purposes – for example, to purchase or renovate a rental property and to buy a motor boat. The interest expense on the private portion of the loan (the motor boat) is not deductible. A common mistake is to claim a deduction for interest on the private portion of the loan.

### Legal Expenses

Conveyance expenses incurred on the purchase and sale of your property are not deductible. Instead, these form part of the cost for capital gains tax purposes. A common mistake is to claim a deduction for conveyance costs.

### Travel Expenses

Where travel related to your rental property is combined with a holiday or other private activities, you may need to apportion the expenses. You may be able to claim local expenses that are directly related to the property inspection and a proportion of accommodation expenses. A common mistake is to claim a deduction for the cost of travel when the main purpose of the trip is to have a holiday and the inspection of the property is incidental to that.

### Apportionment Of Rental Expenses

In some situations, rental expenses may need to be apportioned. For example, if your holiday home is used by you, your friends or your relatives free of charge for part of the year, you are not entitled to a deduction for costs incurred during those periods. It is also important that you have a clear intention to rent the property. If you made no attempt to advertise the property or set the rent so high it is unlikely a tenant could be found, we would find that you had no intention of renting your property and your rental claims would not be allowed. Some common mistakes are: Claiming deductions for any expenses relating to your private use of the property. Claiming deductions for a property that is not genuinely available for rent.

### Deductible Borrowing Expenses

The correct way to claim borrowing expenses of more than \$100 is to spread the deduction over five years or over the term of the loan, whichever is less. If your borrowing expenses are \$100 or less, you can claim the full amount in the income year they are incurred. A common mistake is to claim all deductible borrowing expenses in the first year they are incurred.

### Ownership Interests

If you purchase a rental property as a co-owner and are not carrying on a rental property business, you must divide the income and expenses for the rental property in line with your legal interest in the property. This is despite any written or oral agreement between co-owners stating otherwise. A common mistake occurs when a property is purchased by a husband and wife (as co-owners) and the income and expenses are not split in line with their legal interest in the property.

### Record Keeping

One thing is certain: having a record of your expense is the best defense. So, if you make a claim, keep your records with your tax return. You must keep records of: rental income and expenses for five years from the date your income tax return is lodged. Ownership and all the costs of acquiring and disposing of your property for five years from the date you dispose of your rental property.



## Hello And A Big Welcome To You All!

### A Cautious Beginning To The 2008 Market

The property industry has certainly been in focus in 2008 with plenty of media and community interest around the credit crunch, housing and rental affordability and interest rates. Economic gloom in the US continues to reverberate around the world and, at home, the Reserve Bank of Australia has been grabbing the headlines as they apply the pressure needed to slow our own economy down. The Reserve Bank's latest decision not to increase interest rates indicates that recent rises are beginning to take effect in slowing the economy. This was made evident by a number of factors;

1. Consumer confidence is at a 15 year low with retail sales slowing
2. Mortgage lending is down in most states
3. The slowing economy and cooling property market. However is partly offset by a booming minerals and energy sector

Hopefully, we have reached the top of the interest rate cycle unless banks decide to increase rates as a result of short term money becoming expensive. Worst hit are the homeowners already suffering 'mortgage stress' – a phrase in common use these days, describing borrowers who devote more than 30% of their total income to meeting mortgage repayments. Property clearance rates in Melbourne have stabilized around the mid 60% mark however reduced supply is tending to underpin values as some would be Vendors steer clear of falling clearance rates.

### But Now For The Good News!

Australia's property investors have reason to be positive with investment yields and returns expected to continue improving. With residential vacancy rates at historical lows, rental returns are beginning to rise. If this trend continues, we will see some smart money being shifted from the stock market to a "safer haven" - property. Our view is that property prices needed to stabilize to sustain the excellent growth we have achieved over the last decade.

### The Rental Market Shifts In Favors The Landlord

The latest REIV rental reports reveal the vacancy rate for residential properties within 4km of the Melbourne CBD has dropped to an all time low of 0.6 per cent. This is the first time it has been below 1 per cent. Within Melbourne the area with the lowest vacancy rate was the inner city, within 4km of the CBD. The reports highlight what many prospective tenants already know, that it is extremely difficult to find an inner city property to lease.

"People looking to secure rental property in suburbs such as Port Melbourne, Docklands, Carlton and Richmond have little choice but to look further out." **The state of the market is placing significant upward pressure on rental prices.** According to the Australian Bureau of Statistics in Victoria, 1500 people a week are moving to Victoria placing a strain on the residential rental market.

The R.E.I.V states that the residential market is in a balanced state when vacancy rate is around 3 per cent. This represents a stable market, with choice for prospective tenants and rents that increase closer in-line with CPI. The current market conditions mean that prospective tenants have limited choice and rents are rising at a faster rate than have historically been the case.

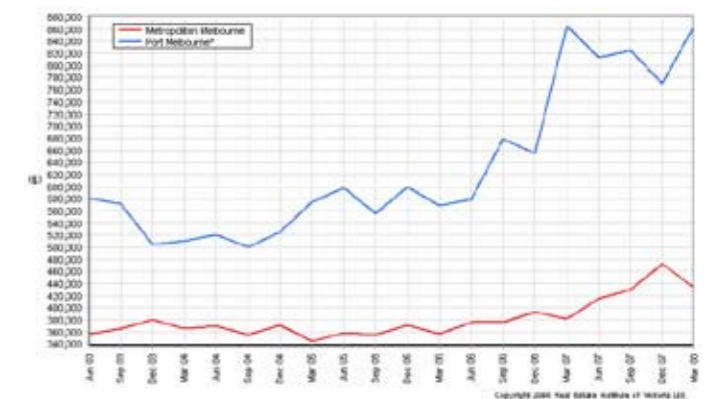
### What This Means To You

- The return on your property will increase as rents are upwardly reviewed.
- Purchasing an additional investment is worth considering, particularly as prices stabilize and returns increase.
- Your equity in existing investments will have soared as prices in Melbourne and Port Melbourne have performed fantastically well.

### And Now For Some More Good News

#### Port's Capital Growth Doubled Melbourne's Over The Past 5 Years

At Frank Gordon & Co, we are proud of our sales performance achieving 100% success with our Auction clearances over the past financial year.



Melbourne's Current Median Price - \$432,500 up 21% in 5 years  
Port Melbourne's Median Price - \$865,000 up 49% in 5 years

### A Taxing Time For All

As the financial year draws to a close, many dread the experience, "Organization is the key, whether you're doing your own tax return or use an accountant, having your statements and receipts in order makes the process smarter and helps ensure you don't miss anything."

With the end of the financial year Frank Gordon & Co again supply you with detailed information for your tax returns. Enclosed is your 2007-2008 financial statement. For rental property deduction claims, detail can be found on the Australian Tax Office website [www.ato.gov.au](http://www.ato.gov.au) [enter rental property] or speak to your accountant.

## Our Platinum Property Management Team

### Frank Callaghan

Frank Callaghan is the current Managing Director. After graduating in Commerce at Melbourne University in 1973, Frank commenced his marketing career with Unilever Australia Limited. Following several years in brand management he joined the property industry having completed an additional degree in Real Estate. Now with well over 30 years practical experience he heads Port Melbourne's leading Agency.

Frank brings to his clients a wealth of knowledge in managing and selling both Residential and Commercial Property. Having lived in the City of Port Phillip for 30 years, he is ideally placed to advise clients on every aspect of the Inner City Bayside property markets. "My role is to assist people to achieve their goals by providing reliable advice and an enthusiastic professional team committed to excellent service."

Frank is one of Melbourne's leading auctioneers, with over a thousand successful Auction campaigns to his credit. "The philosophy which drives the success of Frank Gordon & Company is simple. To provide a superior Real Estate service, based on accurate advice and outstanding results. Our firm's edge comes from specialization and this has resulted in an enviable market share largely based on referrals."



Frank Callaghan  
AREI B.Comm  
Managing Director

### Christine Fraser

Christine is a valuable member of the Frank Gordon team with an extensive background in Property Management and Administration. With over 20 years experience in the Real Estate Industry, Christine has a sound knowledge of Trust Accounts and real estate procedures. Christine is also a Certified Agents Representative.

Christine has managed extensive portfolios during her time as a Property Manager and been responsible for all facets of property management. Her excellent knowledge in key fields of the industry enables her to handle any needs or queries our clients might have.

Christine is available to discuss with you any concern or needs that you encounter whilst you are conducting your business with Frank Gordon & Co. "I am totally committed to ensuring that all Frank Gordon & Co customers' expectations are met with exceptional service and that the office is running smoothly to ensure that this happens."



Christine Fraser  
CAR (REIV)  
Operations Manager

### Shelley Barrett

Shelley's perspective on client service is refreshing; her energy and work ethic combined with excellent skills in her Business Development role in Frank Gordon's expanding Property Management division. Shelley has a wealth of experience and is fully conversant with all aspects of the Residential Tenancies Act. In addition to her extensive training, Shelley's personality and dedication have been pivotal to her success; building strong business relationships along the way. From tenants and trades people to property owners, Tenancy Authorities, investment and executive relocation consultants, Shelley creates a caring and diligent communication with every contact. Shelley ensures that routine inspections, rental reviews and financial reporting happen like clockwork.



Shelley Barrett  
Senior Property Manager  
Business Development Manager

### Eva Chan

Eva is an important member of our Property Management team and has built a solid reputation from both landlords and tenants alike. Graduating from Monash University with honours, Eva has brought her exceptional administration skills to Frank Gordon & Co's rental management team.

With her excellent communication skills and hard working nature, Eva is perfectly placed to ensure your property is run efficiently and without stress. This is evident in all nature of her work in which matters involving both landlords and tenants are dealt with promptly and thoroughly. "My aim is to make the whole rental experience pleasant and rewarding for landlord, tenant and agent."

As a certified Agents Representative and a member of the Real Estate Institute of Victoria, Eva is dedicated to giving the landlord and tenant the correct and most current advice that will protect the landlord's investment and provide value and service for the tenant.



Eva Chan  
B.Sc (Hons.) CAR (REIV)  
Property Manager

### Tamara Rattray

Tamara brings to her clients a sound knowledge of the Residential Tenancies Act having previously worked with the State Government Consumer Affairs Rental Enquiries Department. She commenced her career with Frank Gordon & Co as an Assistant Property Manager working across the portfolios. Tamara possesses excellent experience in Body Corporate Management due to her previous employment in this specialist field.



Tamara Rattray  
Property Manager

### Some Helpful Property Owners Tax Time Tips

There are a host of expenses you can claim relating to your rental property but only for the period your property was rented or available for rent. These expenses could include:

- advertising and marketing costs associated with finding a tenant;
- bank charges and borrowing expenses;
- insurance;
- body corporate fees, council rates and land tax;
- property agent fees or commissions;
- decline in value of depreciating assets;
- repairs and maintenance, gardening, lawn mowing and pest control;
- water charges; and
- travel undertaken to inspect the property or to collect the rent.

### A Note Of Caution

There have been a number of common mistakes identified in the income tax returns of rental property owners. To help you, we've compiled a list of what you should do and common mistakes to avoid. We have prepared an information sheet on the back page for your assistance with tax time.

