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2017 Budget – What it Means for Our Property Investor Clients

The budget contained a few measures that will affect our property investor clients and particularly those wishing to buy property in the future.

As with all budgets, these are announcements of intention only, often the announced measures will change through the legislative process. That said, we have assessed those announcements that mostly affect our property clients.

Rental Property Depreciation Restrictions

To commence immediately.

Investors who purchase plant and equipment (or have a QS survey done analysing out the plant & equipment values) for a residential investment property after 9 May 2017 can still claim a depreciation deduction for that property. However, subsequent owners of the property will be unable to claim deductions for the plant and equipment purchased by the previous owner.

Once again this is reducing the deductions and therefore the commercial return on property so we think it will likely fuel rent rises, the opposite affects the government wants to achieve.

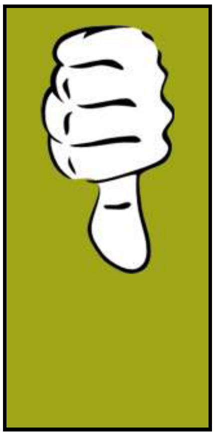
We also see the following problems with this approach:

1. Subsequent owners? How is one to know whether a former owner of a property has claimed depreciation for the plant & equipment in the property; and
2. The prohibition is on plant & equipment purchased by the former owner, not on plant & equipment purchased by the new owner. It seems to us that the solution here could be to simply buy the plant & equipment in a separate transaction to the property purchase.

Time will tell on this one and as always, the devil will be in the detail. We cannot see how the government can think that reducing real investment returns to property owners will make housing more affordable. Simple economics tells us the market will demand a commercial return so with fewer deductions and a higher tax cost, rents would seem likely to rise (as opposed to the alternative of house prices falling).

Travel Expenses for Property Investors

To commence from 1 July 2017.



No deductions will be allowed for travel expenses in relation to inspecting, maintaining, and collecting rent.

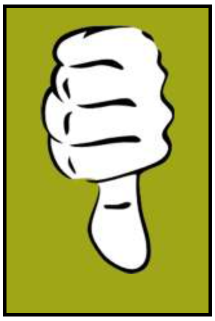
This is quite ridiculous in our view for two reasons:

1. There is already ample guidance around what travel costs are deductible and which are not. Surely, it’s up to the ATO to ensure compliance with those rules not just say it’s too hard and remove them altogether; and
2. It will adversely affect property investors in a way other investors are not affected, especially those who manage their own properties.

We note travel relating to property education does not seem to be prohibited and neither does travel costs for property managers. Perhaps there is an opportunity to work closely with your property coach and/or manager to bring those cost’s back into the realm of deductibility?

Medicare Levy and Low Income Threshold Increases

To commence 1 July 2019.

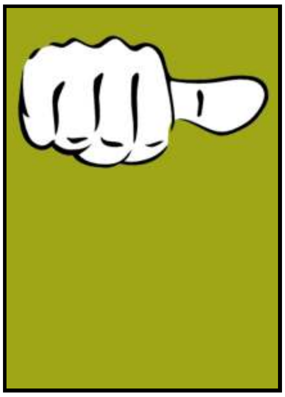


Not specifically a property investor issue but one that will affect most of our clients.

This will be offset marginally for low income earners with an increase in the Low-Income Threshold meaning you can earn more money before you have to pay the levy but generally this will increase everybody’s tax cost.

Capital Gains Tax Changes for Foreign Residents

To commence 9 May 2017.



The CGT exemption for foreign and temporary tax residents will be abolished on new property purchases immediately. The exemption will be phased out for existing foreign owners on 30 June 2019.

While we don’t consider this proposal to be as bad as some for our clients, it may affect Australian Citizens living abroad as it relates to tax residency.

Foreign tax residents may wish to consider selling properties prior to 30 June 2019 or risk being fully taxed on the capital gain.

Time will tell on this one and as always, the devil will be in the detail. We cannot see how the government can think that reducing investment returns to property owners will make

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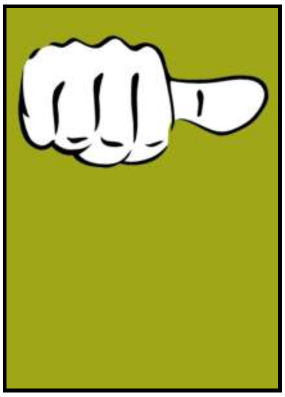
Foreign Resident CGT Withholding

To commence 1 July 2017.



We have written before about the problems with the 10% withholding tax applying to sales of property by foreign residents.

This budget reduced the value of properties captured by that regime from $2.0m to just $750,000 so will affect more property owners.

Again, we don’t consider this to be a completely bad idea although we have concerns about placing the burden for the withholding on the property buyer.

Foreign tax residents captured by the changes to the CGT concession may incur a double blow from the budget if they sell their properties after 30 June 2017.

Major Bank Levy

To commence 1 July 2017.

Once again, the government has got it wrong and the levy will not affect the banking sector profits at all.

This levy will simply be passed on to bank customers as increased fees or higher interest rates. Either way it will end up being a tax on us all and not the banks as the government naively believes.

What Can We Do

The attack on property investors seems to be short sighted and politically motivated. Having said that, there may be little financial detriment to investors as the value the targeted travel deductions is limited and there seems to be a way around the depreciation prohibition.

The capital gains tax changes can significantly affect our foreign based clients so we recommend you contact our office on +61 7 54489600 or drop us an email on admin@growaccounting.com.au to work through the options.

As for the banking industry levy, all we can suggest is that you move your accounts to a bank with licensed entity liabilities below the stipulated threshold of $100 billion.

For more information give me a call in the office on (07) 5448 9600 or drop us a message on admin@growaccounting.com.au.

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