

Practice Update

August 2022

Tax time focus on rental property income and deductions

The ATO is focusing on four major concerns this tax season when it comes to rental properties.

Concern 1: Include all rental income

When preparing tax returns, make sure all rental income is included, such as from short-term rental arrangements, renting part of a home, and other rental-related income like insurance payouts and rental bond money retained.

Concern 2: Accuracy of expenses

Not all expenses are the same – some can be claimed straight away, such as rental management fees, council rates, repairs, interest on loans and insurance premiums.

Other expenses such as borrowing expenses and capital works need to be claimed over a number of years.

Depreciating assets such as a new dishwasher or new oven costing over \$300 are also claimed over their effective life.

Concern 3: Capital Gains Tax upon sale of a rental property

When selling a rental property, capital gains tax ('CGT') needs to be considered and any capital gains or capital losses need to be reported.

When calculating a capital gain or capital loss, it's important to get the cost base calculation right.

It is also important to note that when selling any property for \$750,000 or more, vendors/sellers must have a clearance certificate otherwise 12.5% will be withheld.

These clearance certificate applications can take up to 28 days to process so to avoid delays, sellers should apply as early as practical using the online form.

Concern 4: Record keeping

Records of rental income and expenses should be kept for five years from the date of tax return lodgments or five years after the disposal of an asset, whichever is longer.

Sessional lecturer entitled to superannuation support

The Federal Court has agreed with the ATO that a lecturer providing services to a higher education provider was a common law employee and therefore entitled to superannuation support, despite being engaged as an independent contractor.

The ATO reviewed the situation and concluded that the lecturer was entitled to receive superannuation support. This was on the basis that for superannuation guarantee purposes they were either an 'employee' within the ordinary meaning of that term, or was what is referred to as an 'extended definition employee' as someone engaged primarily for the provision of their labour services.