PROPERTY INVESTOR NEWS

APRIL 2022

The **tax impact** for rental property owners affected by floods

As the cleanup continues in the many flood affected areas throughout Australia, rental property owners are beginning to feel the full impact of the damage caused to their properties.

It could be many months before their properties are repaired and their tenants can return. This may mean a long period without any rental income coming in along with costly repair bills to pay. But something they may not have considered yet is the tax implications of the damage and the recovery.

So what are the big tax issues rental property owners need to be aware of right now?

Insurance payouts for damage caused to your property or for loss of rental income ARE taxable income.

Demolition and clean up costs will be tax deductible, but the amount you can claim will be limited to the income you receive from your insurance payout.

If your rental property was **completely destroyed** there may be capital gains tax consequences.

Repairs to your property WILL be tax deductible, but it is important to make a distinction between repairs and renovations or improvements as these will NOT be immediately tax deductible.

Repairs – a tax deduction is allowed for the full cost of the repair in the year it is completed and paid for

Improvements – the cost must be depreciated as either a part of the building (over 40 years) or as a separate asset (over its effective life)

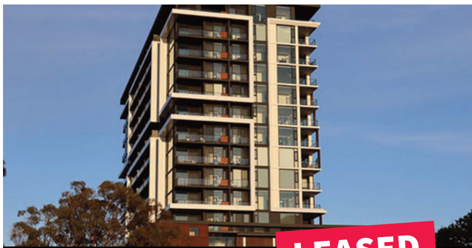
The distinction between the two is not as obvious as it may seem. For example, if your entire kitchen needs to be replaced due to the flood damage, the cost of this will be classed as an improvement and will need to be depreciated over 40 years. But if you just have to replace the laminated benchtops and doors in the kitchen (and not the appliances and the cupboards themselves) then this would be classed as a repair.

To ensure you are able to claim as much of your costs as possible as repairs, it is best to get advice from a tax accountant before commencing any work.

92/6 Walsh Loop, Joondalup

12 Forestay Turn, Alkimos

82 Roxburgh Circle, Kinross



461 Lakeside Drive, Joondalup

The procedures to follow if a **tenant passes away**

While no-one likes the idea of having to deal with the death of a tenant, it is something many landlords and property managers will encounter.

It's the last thing any landlord or property manager wants to think about, but the sad reality is that tenants can and do pass away. And you need to know what to do.

While we hope you never have to deal with the passing of a tenant, we trust these tips will be useful if you do:

1 – If you're the one to discover the body, contact the police immediately – they will handle the removal of the body and contact the next-of-kin. Once the police return to the premises to you or if you are notified of a tenant's passing, make sure to properly secure the property by locking doors and windows. If the tenant lived at the property alone ensure any pets are taken care of and make sure no-one enters the property or removes anything.

2 – Notify the insurer and confirm if cover is available. Some insurers do not cover loss of rent, so it is important to check the policy inclusions and exclusions.

– Document all correspondence with the deceased's executor;

– Keep written evidence of the actions taken and their dates, e.g. listing the property for rent;

– Keep all receipts from work and services undertaken at the property; and

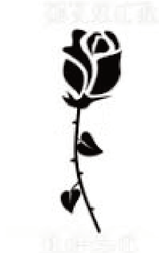
– Contact the insurer regarding supporting documentation – usually a death certificate will be required but in some instances insurance companies will accept differing forms of proof.

3 – Follow the state and local laws applicable for appropriately handling tenant deaths at rentals, such as serving notices, terminating leases, returning bonds, disposing of tenant possessions and disclosures. It is important you follow the rules and understand your obligations. For example, just because a sole tenant has passed away, this does not mean the lease automatically terminates.

4 – When appropriate, open lines of communication with the deceased tenant's executor or next-of-kin so you can discuss transitioning the rental property back to the owner.

5 – The next-of-kin/executor is responsible for the deceased's rent and providing vacant possession. The landlord is entitled to rent (paid from the bond, deceased estate or a co-tenant) until the lease ends.

6 – Once you have vacant possession, advertise and re-let the property. It's important to keep written evidence of the advertising activity including dates listed, costs, and commencement date of the new agreement, as this will be needed when it comes time to submit an insurance claim.



JUST BECAUSE A TENANT PASSES AWAY, THIS DOES NOT MEAN THE LEASE AUTOMATICALLY TERMINATES.

When is the last time you did a **health check** on your investment property loan?

Did you refinance your investment property loan in 2021? If you didn't, it might be time to start thinking about it.

The past 12 months saw interest rates drop to record lows. Many Australians have taken advantage and shaved hundreds of dollars from their monthly repayments.

Incredibly low rates are unlikely to stay around too much longer so if you want to take advantage of them, now is the time to act.

But…

Be careful about locking in a variable loan with a super low rate; once figures begin to rise, you may wish you chose a split loan or a fixed rate that is set in stone.

It all comes down to sums and strategy but the one certainty is that refinancing is worth investigating right now.

Talk to your broker to get the ball rolling.