

SAM SAGGERS

Top Tax Lessons & Checklist For Profit In Property

Property and tax excerpts taken from property millionaire Sam Saggars latest published book *'Property Success in 7 Lessons'*.



Deductible Expenses Include:

Here are some property-related costs that can be deducted from your taxable income **if you choose to rent your property out rather than live in the property as a home.**

1. Property management and maintenance expenses
2. Advertising for tenants
3. Body corporate fees or strata title fees and charges
4. Cleaning
5. Gardening and lawn mowing
6. Pest control
7. Security patrol fees
8. Rates and taxes
9. Water rates, charges and usage
10. Council rates
11. Bank charges and fees
12. Loan costs
13. Lease document expenses
14. Letting fees
15. Administration expenses such as stationery and postage related to the property
16. Telephone calls relating to property management *(the ATO likes to see a diary of such calls)*
17. Legal expenses relating to debt collection or tenant problems *(if not covered by landlords' insurance or other insurance)*
18. Electricity and gas
19. Repairs and maintenance relating to wear and tear or damage as a result of renting out the property
20. Some buyer's advocate fees, landlords insurance and depreciation

The ATO is particularly vigilant in trying to catch people who are claiming expenses described as repairs when they are considered to be improvements; for example, fixing broken glass in a window is considered a repair but replacing the whole window frame is an improvement. The tax treatment for the improvement is different and there are penalties for making a false claim, so **make sure you manage your deductions carefully.**

Accountants and Financial Planners

When you are first starting out in property you may not need the structures that are rigidly set up by an accountant. I have found that accountants and financial planners like to set up company and trust structures for people who don't even own real estate.

They often do this for their own personal gain: making money from the set-up fees. In general, people buying their first handful of properties don't need such complex structures.

However, as you move through your investment journey it is **prudent to start protecting yourself by working with a property-focused accountant to set up the appropriate structures.**

The right property structure for you will increase your returns and lower your risk. **There is no "one size fits all" structure; the best set-up for you will depend on things such as how much money you have to invest, your investment strategy, how many properties you own and what your plans are for the future.**

DO NOT EMPLOY AN ACCOUNTANT WHO DOESN'T OWN PROPERTY

Such people often show a lack of knowledge or understanding of property's ability to make you wealthy, mainly because they themselves are not wealthy.



A GOOD ACCOUNTANT WILL:

- ✓ Give you advice on buying structures
- ✓ Strategically keep you ready to buy
- ✓ Create a tax-effective vision for the future
- ✓ Manage your tax losses and gains
- ✓ Assist with distributions and family asset planning
- ✓ Help you set up a self-managed super fund (SMSF).

If you want to start networking with the right type of team – and professionals across all facets of property – Positive Real Estate's [FREE Property Investor Night](#) is a great place to start.

Property Tax Mistake: Not Understanding Gearing

It's very important for you to know the difference between a positive and negative cash flow property.

Here's a brief description of both to help you identify the possibilities of each.

Imagine you could buy a property and every time you went to pay the mortgage, the rent generated from your property covered your monthly interest payment to the bank and all your other costs, such as rates, levies and so on. Would that make you think differently about property? There is no need to imagine, as high-yielding properties that offer this are certainly in the market. They are either known as positive cash flow or positively geared properties. The mild difference is geared properties need to include possible tax deductions from the property to create the cost-free, cash flow positive scenario. To simplify it further, let's use some basic numbers.

Let's pretend you have bought a property for \$100,000 and the interest rate of the day is 6 percent. You borrowed 100 percent, being \$100,000.

You would be paying per annum around \$6000 in interest.

Positive cash flow properties have high rents.

In this example we shall use \$200 a week or a 10 percent rental return.

Your gross rent is now \$10,400 per annum.

You now have \$4400 a year left to pay rates and outgoings and should be left with a surplus of cash.

This principle is known as "positive cash flow". Genuine positive cash flow properties should give the benefit before tax and not be reliant on deductions. Positively geared properties are when the rental return is higher than your loan repayments and

other outgoings after consideration of depreciation and other tax deductions. Properties within the market that can't produce a pre-tax positive cash flow result are either positively geared by tax deductions or still negatively geared. I am a big advocate of gearing your portfolio to be sustainable and self-funding.

Negatively geared properties are when the rental return is less than your loan repayments and other outgoings (*placing you in an income loss position*). Why would anybody do this? Because there is the underlying expectation that the accumulated losses will be more than offset by the capital growth on the property. In this circumstance the rental return is not considered as important as the capital growth potential in the decision process. The key benefit associated with negative gearing is that the loss associated with the property ownership can be offset against other income earned, reducing your assessable income, thereby reducing your tax payable. The result is that the cost of owning the property is being funded by your tenant (*in the form of rent*), the Tax Office (*in the form of tax savings*) and your surplus cash flow.

Ultimately, most investors will aim to be positively geared in the long run. Generally high-income taxpayers choose the negatively geared investment option to maximise their tax returns and benefit from the long-term capital growth potential. Investors who are closer to retirement or in a lower income bracket may choose positively geared or cash flow investments to maximise their income potential.

How Should You Gear Your Portfolio?



SHOULD YOU BUY HIGH CASH FLOW OR CAPITAL GROWTH PROPERTY?

THE ANSWER IS: ***BOTH!***

Both add value to your portfolio and can help you reduce debt on your home loan. If you want to accumulate wealth for the future, a blue-chip capital growth property will do that for you. But how do you buy a capital growth property? The answer is through cash flow. You can create cash flow by buying good positive cash flow properties, which improve your buying power by putting money back in your pocket, plus they help your serviceability. This in turn means you will be able to buy a “high capital growth” property! Successful investors have mastered the fine art of balancing their portfolio, which allows them to continually move forward in building their wealth.

When you hit the mark of five to six properties you are certainly setting yourself up for a very comfortable future. If you then acquire between six and ten well chosen properties, this is where you will find financial freedom! However, less than 1 percent of Australians own six or more properties!

Why do you think that is? Mostly because people get stuck – their cash flow is low and they really don't know how to move forward, or they are simply not confident enough to keep investing. **To avoid hitting this wall, have a combination strategy that includes both cash flow and capital growth.** This will provide you with the serviceability as a borrower and will allow you to continue to move forward, so you can buy more properties, borrow more money and keep building your wealth. You can build your cash flow up from your wages, rent returns and tax deductions, especially if you are a PAYG earner (*don't wait until the end of the year to claim these – claim them weekly if possible*).

This is the type of detail we dig down into in the Lifetime Mentoring Program. **For more information start by coming to our [FREE Property Investor Night](#).**



Understanding Land Tax and Stamp Duty

Costs that sometimes surprise novice investors are land tax and stamp duty. Land tax is an annual tax levied on owners of land. In general, your principal place of residence (*your home*) and land used for primary production (*a farm*) are exempt from land tax. Investment property, on the other hand, will most likely be subject to land tax and the rate of tax varies from state to state. Adjustments for land tax are made at the settlement of the property and often buyers are instantly assessed. Your solicitor should notify you of adjustments to land tax, however it is prudent to have these discussions before you exchange a property rather than in the last days before settlement.

The amount of stamp duty payable varies from state to state and whether you are a first home buyer or an investor. Your legal representative will advise you of the amount payable, or you can always check your state's revenue or treasury office website to see what the rates are and also find out what exemptions and boosts are available.

Make sure you keep up with these rates as they do fluctuate.

NSW: www.osr.nsw.gov.au

NT: www.revenue.nt.gov.au

QLD: www.osr.qld.gov.au

VIC: www.sro.vic.gov.au

WA: www.finance.wa.gov.au

TAS: www.treasury.tas.gov.au

SA: www.revenuesa.sa.gov.au

Choosing The Right Loan

Don't fear borrowing money. It is a necessary part of the process. I see many sit on the fence out of pure fear of taking on debt. As you grow your property portfolio there will be times you prop up your property from your wage and times your portfolio is funded from the tenant's rent that you collect. There will also be times your equity buffers your existence.

The trick is to learn how to manage all of this. All good investors learn to juggle loans, banks and money. Let's start by looking at the different types of home loans available.

INTEREST-ONLY LOANS

Ideally, investment property loans should be interest-only because an interest-only investment loan is fully tax deductible. It is usually the best cash flow solution when matched with good capital growth. With an interest-only loan your repayments are set to cover the interest component of your loan only, which allows you to keep your repayments on your investment property to a minimum. Generally, interest-only loans are for a maximum five-year term (*depending on your lender*), reverting to a principal and interest loan at the end of the agreed interest-only term. However, a further interest only loan can be negotiated at this time. The interest on your investment loan is tax deductible, making these types of loans the most attractive to investors. However, there are other categories of loans that may be considered.

FIXED-RATE LOANS

As the name suggests, fixed-rate loans are set at a fixed rate for a specified period, usually one to five years. Repayments do not rise or fall with interest fluctuations throughout the specified period. At the end of the term you can lock in another fixed rate, switch to variable, or go for a split loan.

These loans may have limited features and lack the flexibility of variable loans. There may be early exit fees and limited ability to make extra payments. This type of loan would only suit an investor who does not need to tap into any available equity in a property. In other words, if you had a property worth \$300,000 and only owed \$150,000 and you fix the loan, you would not be able to access the \$150,000 equity. The equity in the property is now locked up. This is the main reason investors usually do not fix. Fixing can be a great strategy to pay less and increase your cash flow if you have limited ability to access the equity or already have tapped the property of equity and cannot foresee a new opportunity to do that for many years. Investors should never fix loans out of fear of rates going up. Only do it as a well-considered business strategy. With these loans remember to check that the loan conditions will suit your circumstances, particularly the ability to make additional repayments and pay out the term of the loan without a penalty.

STANDARD VARIABLE-RATE LOANS

The standard variable-rate loan offers more flexibility than a fixed-rate loan. A standard variable-rate loan will often have more features, so the rate may be slightly higher. The extra options (*for example, a redraw facility, the option to split between fixed and variable, extra repayments and portability*) should be taken into account when choosing your type of variable loan. Have a think about what you really need. Repayments will vary as interest rates fluctuate.

LINE OF CREDIT LOANS

Lines of credit against the value of a property you own are a great way of creating new deposits to buy more property. These loans are sometimes known as equity loans and they are a great way to access the equity in your home to use for property investment, home renovations or other personal purchases. Repayments on a line of credit loan are determined by the interest rate applicable at that time. If you have sufficient equity in your home you will need to make a separate application for a line of credit loan if you don't already have one in place. With this type of loan you have the added advantage of being able to make unlimited deposits, as your repayments are not set. Always check the conditions of these loans as they are sometimes more expensive than standard products.

Deal Feasibility:

The Returns

RUNNING THE NUMBERS IS OF HUGE IMPORTANCE.

A property could look great on the surface, but until you measure the rental return, the outgoings and associated costs, you won't know how much the true cost is per week.

No more than 30 percent of the property income should be lost to outgoings and rent should be no lower than a 5 percent return at a bare minimum. The property will still need further assessment, but as a rule you never want to be too negative with property.

You will drop in serviceability as you buy more properties and your wage or income will be the major contributor to the property's upkeep. This will often lead to being stuck and unable to buy again.

THE FOLLOWING FORMULA IS THE KEY TO EVERY DEAL YOU LOOK AT AS IT DETERMINES YOUR PERCENTAGE YIELD:

Weekly rent x Weeks in the year = Annual rent ÷ Purchase price × 100

FOR EXAMPLE:

$\$220 \times 52 = \$11,440 \div \$160,000 = 0.0715 \times 100 = 7.15\%$ gross yield

WHAT ABOUT EXPENSES; DO YOU FACTOR THEM IN?

TO GET A TRUE INDICATION OF YOUR NET YIELD USE THE FOLLOWING FORMULA:

Annual rent – Property expenses* ÷ Purchase price × 100 = Net yield
*excluding interest

These expenses will include strata fees, management fees, rates, water and so on. The importance of the net yield will again depend on your chosen strategy. If you

have high income, often your tax savings will offset your shortfall. If you are targeting cash flow to replace your income and maximise future borrowing capacity, getting

the yield as high as possible is very important. There are some great software programs on the market that can help you run the numbers. I would encourage getting one.

Deal Feasibility:

Tax Advantages – Old Vs New

AN IMPORTANT FACTOR WHEN ASSESSING A DEAL IS TO UNDERSTAND THE TAX ASPECTS OF THE PROPERTY.

This will help you choose new or old property and comprehend what is best in a certain area. The only advantage of older property is that it has the scope for potential

improvements. The older the property is, the more funds for repairs and maintenance are needed to service it. Buying an old property is sensible if you wish

to reap the rewards of achieving greater profits and multiplying the property's returns through add-value strategies.

The age of the building is also relevant because of rental returns. Tenants often prefer more modern housing; if your property is too old you will find that it suffers from high vacancy rates, ongoing high repair and maintenance bills. Hence, these properties are great to renovate but are not a good source of cash flow. In order to buy an old property well, focus on the suburb and find benchmark sales, then purchase next to the newly created benchmark.

In real estate there is a phrase "worst house, best street". In other words, find a property that is a blank canvas and in need of work (*worst house*), close to properties that have recently been purchased at higher prices (*best street*); the money entering the best street creates the new high owners' established benchmark (*OEB*).

No matter its age, a property and its inclusions have a value and an effective life, meaning they can decrease in value or depreciate from where they already are. This is often misunderstood. **If the property you are looking at is a little old it still has depreciable value.** The depreciating value applies just the same as if it were new, just at a lower initial value. There is a great deal of depreciation in properties that have been renovated. All new appliances, fittings, fixtures, consultant's fees and labour costs are completely depreciable. There are a number of dates that affect these rates. **Absolutely everything in an investment property has an effective life and therefore is eligible for tax deductions.** The 1985 rule applies to another component of depreciation on the construction cost. If an investment property was built before 1985



it does not qualify for the flat 2.5 percent depreciation for 40 years. The good news is that there are often thousands of dollars worth of inclusions aside from construction that can be claimed.

When assessing a deal, note that anything in the property that appears to be part of a renovation will be valued and depreciated accordingly.

That goes for the hidden materials, such as new wiring, plumbing and waterproofing. There is no need for receipts either; the expert is able to value everything that makes up the property. Claiming the complete depreciation allowances on an investment property does not adversely affect an investor's capital gains tax (*CGT*) position. You are free to claim all deductions and capital gains tax rulings remain the same. Investors will, however, be required to add on capital allowance deductions to the capital gain when and if a decision to sell the investment is made.

Remember, if a property is held for longer than 12 months investors may be entitled to the *CGT* discount. These issues can become complicated; so make sure you talk to your accountant.

At the end of the day, you do not need to be a tax expert to be good at real estate. One can buy a depreciation report that covers all allowances under the Tax Act for as little as \$300. You can order a depreciation schedule online at www.depreciator.com.au. Being on top of your taxation means more money in your pocket.

Becoming wealthy through property is the average person's easiest way of climbing the food chain. It happened for me and it will happen for you – if you do what is required. It's not about the lifestyle or buying "stuff" or the appearance of being wealthy. Becoming wealthy is about creating a legacy, it's about passing on a gift from one generation to the next, in the hope that something wonderful may happen, that something spiritual may occur to perhaps you or your children as it did for me, or maybe even a dynasty may begin.



“Becoming Wealthy Is For Everyone.”

- SAM SAGGERS

We know this can happen because we have helped thousands of Australians start the wealth creation journey through real estate.
We can show you how to use property to get you there.

Want to know how?

Come and see how we do it at a Property Investor Night.

We understand that everyone's situation is unique and that you need a tailored approach to property investing. You need a plan that is certain to work for you. Let us show you the best options for your personal situation.

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ABOUT THE AUTHOR

Sam Sagers is one of the most successful property market forecasters of his time; his successful property investments have propelled him from a humble beginning of \$5000 to property holdings over \$10 million. His key predictions and strategies have allowed his followers to cast a discerning eye on the Australian property marketplace.

Sam Sagers is CEO and co-founder of Positive Real Estate, one of Australia's leading property investment companies. In his exciting 19-year career he has brokered over a billion dollars in real estate deals.

He is a licensed real estate agent and a University of Queensland Business School graduate. Sam is a passionate educator and a sought-after world-class keynote speaker who has helped more than 5000 people to learn and apply real estate principles. Having experienced every area of purchasing real estate, he is among Australia's most experienced property investors and mentors.

He has also featured in Your Investment Property magazine, the Sydney Morning Herald, Money magazine, Smart Property Investment magazine, and many other newspaper, internet and magazine articles.

In Sam's core, funnily enough – even though he is an industry icon, presenter and successful entrepreneur – he truly is an introvert and enjoys time on his own to think very carefully about his ideas, thoughts and his strategic investment decisions. Sam is also a highly positive person and highly analytical; combining these traits has helped him to continuously move forward.

Sam explains that his greatest success has been building an amazing property empire and growing as a person. *"Becoming wealthy is about what you discover*



"My success is that I can walk down the street every day with my head held high knowing I make a difference in helping people invest correctly in the Australian property market".

...

about yourself along the way! It is not about securing a successful deal, rather it's about the life that I get to lead from investing wisely. My success is that I can walk down the street every day with my head held high knowing I make a difference in helping people invest correctly in the Australian property market".

Material taken from PROPERTY SUCCESS IN 7 LESSONS The safe way to fast track BIG \$ by Sam Sagers.

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