PropertyInvesting.com 'Insider'

Discover proven tips, strategies and techniques to dramatically increase your property investing profits

Issue 6, Volume 5 - June 2006

By Steve McKnight

29th June 2006

Hi,

Welcome to your June edition of 'Insider' - the PropertyInvesting.com newsletter.

With the end of the financial year imminent, it's a perfect opportunity for us to roll up the sleeves and talk about every accountant's favourite subject: Tax!

This month's edition is packed full of tips, insights, and techniques to help you get thinking about ways to minimise your tax bill, improve your asset protection position, and better equip yourself to profit from the changing property market.

In this edition, you will discover:

So let's go!

This month, the first article has been written by a guest contributor who is also my accountant - Mark Unwin.

Mark is a Chartered Accountant from Melbourne, and ever since I retired from public accounting practice myself, he has been looking after my business and property affairs.

Mark is a wellspring of information on property investing related information, so I've asked him to offer his top tax-time tips.

Top 10 Tax-Time Tips For Tax-savvy Property Investors

By Mark Unwin, Chartered Accountant

Important Note: *Accounting and Taxation issues differ depending on your circumstances. This newsletter contains a broad discussion to provide a general understanding of accounting topics - it is not a substitute for investment or accounting advice. Before acting, you should seek specific advice for your unique situation.*

Well, it's beginning to look a lot like tax time!

Shopfronts, Newspapers, and our Television sets are all filled with ads for tax-time savings on business products.

Accountants everywhere are wishing each other a "Happy New Financial Year" (and making their clients groan).

Meanwhile, business owners and property investors everywhere are dusting off shoeboxes full of receipts sending them to their accountants (and making their accountants groan!)

So to keep in the spirit of things, I thought I'd share with you my Top 10 Tips for Property Investors so that you can have an even happier new year.

1. Bring Forward Expenses

Realistically, if you're planning on minimising your tax bill in this financial year, you might have left your run too late to make a significant change.

But even at this late stage of the year, it may be possible for you to legally reduce your tax bill for the financial year ending June 30th.

One option you have is to bring forward some expenses, such as depreciation.

Another example is, if you have an interest only investment loan, you may be able to pre-pay up to 12 months worth of interest on the loan just before June 30th and lower your assessable income for this financial year.

It's also possible to do this for P&I loans - but it's a little more tricky. Needless to say, it's worth investing in some good advice from your accountant if you're considering bringing forward expenses.

2. Defer Income

Another last-minute change you can make to minimise your 2005-06 financial year tax bill is to defer income.

Tax payable is calculated based on the date a contract is signed (not the date money exchanges hands). So if you have a property for sale right now, and you accept an offer this financial year, you will be taxed on the proceeds of the sale in this year's tax return.

However, if you accepted an offer on July 1st, the sale would be accounted for in your 2006-07 tax return - 12 months from now.

You might have noticed recently a lot of tax-savvy investors have delayed holding auctions until this weekend (the 1st and 2nd of July), securing themselves a 12-month interest free holiday from paying tax on the sale proceeds.

3. Maximise Deductions - but Beware Over-Claiming

We all know of someone who purchased a property in a tropical destination up north just so that they could claim regular holidays to "inspect the property" as a tax deduction.

However, in recent years, the ATO has been targeting investors who try to claim more than their fair share in their tax return. In many cases, audits have seen these people forced to pay the money back, plus penalty interest of up to 50%!

One of the benefits of investing in property is the number of tax benefits offered to investors.

But making financial decisions based on whether or not something is tax deductible can be dangerous - and always, ALWAYS get specific advice from your accountant about what you can (and can't) claim as the rules change from individual to individual!

4. Beware the Investment vs Lifestyle Tax Trap

In recent years, where property prices have risen substantially, a strategy which encourages investors to draw down equity on their investment properties to fund their living expenses has arisen.

However, the Tax Office has taken a dim view of people who have drawn down the equity on their investment properties to fund lifestyle expenses - and have then claimed the additional interest on the loan as an investment expense.

Beware of falling into this trap as the Tax Office will look at what the funds have been used for - not what the loan is secured against.

5. Use depreciation

One tax effective method for maximising your investing dollar is depreciation.

Depreciation allows investors to claim against the diminishing value of an item over several years - in essence, it helps investors to fund the replacement of an item down the track as it ages, wears out and loses value.

Different items depreciate at different rates - so speak to your accountant or a quantity surveyor if you want to know the specifics.

But beware - depreciation can be a double-edged sword (as Steve points out in an article on the topic available at <http://www.propertyinvesting.com/qs.html>)

6. Structure Your Empire!

I can't stress this enough.

In fact, in WealthGuardian (see <http://propertyinvesting.com/go/133>), Dave Bradley and I spend a massive amount of time explaining the options available for protecting assets and minimising tax.

You've no doubt heard the phrase "protect your nest-egg". In a structuring sense, there's no point in building your portfolio over the next 10 years if someone can slip down the back steps one day and sue you for the lot.

An effective structure can 'quarantine' your assets away from certain risks, and there are often attractive tax benefits too.

To find out more, speak to your accountant, or invest in a copy of WealthGuardian. <http://propertyinvesting.com/go/133>

7. Keep records - not shoeboxes!

For an accountant, there's nothing worse than receiving a shoebox full of receipts during tax time - and it's something that you (as a client) end up paying for.

You see, accountants charge an hourly rate for their work - this hourly rate is almost always more than what you would pay if you hired a book-keeper (let alone doing the work yourself).

But if the idea of keeping books seems intimidating, don't let it stress you. An Excel Spreadsheet might be all you need in order to create some year-end summaries for your accountant - especially if you're investing in your own name.

If you're using a company or trust structure, you may be required to produce company reports. If so, consider investing in an accounting package like MYOB.

8. Make sure you have an accountant who understands property investing

A question I'm regularly asked is "Should I choose an accountant who is also a property investor?"

I would say no. Although some experts recommend it, I don't think it's necessary that your accountant is an investor themselves - but it IS CRITICAL that your accountant understands real estate investing.

Tax for real estate investing can be a tricky topic because there are so many fine details to do with when, what and how property investors are taxed.

Generally, you're going to get a better quality of service from an accountant who deals with a lot of property investors, and as a result knows by-heart how the quirks of tax law relate to real estate.

(Just quickly - I'm wary that whenever Steve asks me to help out PropertyInvesting.com members, I always receive a flurry of enquiries from potential clients. But because tax time is the busiest time of year for me, I don't have the capacity to bring on new clients immediately.

However - if you e-mail me at <accountant@propertyinvesting.com>, I can get back to you in roughly 2 weeks time, and give you a bit of information know the types of clients I am taking on right now.)

9. Keep your accountant up-to-date

The worst time to go to your accountant for advice is after the deal done.

At this point the damage is done, and there's very little your accountant can do to improve your accounting position.

So make it a regular habit of keeping your accountant up-to-date with what's happening with your property portfolio throughout the year - not just at tax time.

As a result, you'll be able to benefit fully from your accountant's tax and accounting expertise and make wiser financial decisions, and overall you'll receive a much better quality of service.

10. Learn the language of accounting

My final tip is to educate yourself in accounting and tax matters.

Learn how to read and interpret what your property portfolio's financial reports are telling you, and gain a working understanding of how tax, asset protection and structuring operate for property investors.

Tax, asset protection and structuring - it can be difficult to find concise and easy-to-understand information on these topics and how they relate to real estate. And to learn from your accountant can cost anything from $40 to $100 per hour.

Which is why Steve McKnight, Dave Bradley and I created WealthGuardian. Again, if you'd like to find out more about WealthGuardian, click here:
<http://propertyinvesting.com/go/133>

Action Time!:

I hope these 10 tips have provided you with some insights which you can take to your accountant in order to improve the way you invest in property.

Since Steve has been using action points in his last two newsletters, so I thought I'd try it myself!

With the 2005-06 financial year nearly over, and the 2006-07 financial year just beginning, write down what actions you plan on taking to improve your financial position after reading my article.

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Your FREE Downloadable Tax-Time audio resource:

Mark Unwin and David Bradley on Property and Tax

Earlier this week, Mark Unwin and my business partner David Bradley stepped into the studio here at "PropertyInvesting.com F.M." to record a tax-time online broadcast for participants of the R.E.S.U.L.T.S. Mentoring Program.

Both Mark and Dave are qualified Chartered Accountants, and they discussed taxation and property investing related issues for nearly 45 minutes including:

- At what point is it wise to invest in a structure, and when does the cost outweigh the benefit;

- How does GST affect certain property transactions (Watch out! Make sure you don't trigger this GST snare);
- A strategy for packaging your salary into your investment property loans to reduce your taxable income;
- Is it an effective strategy to use Superannuation funds to invest in property;
- Your accountant - how to get the most out of him (or her), plus are they a good source of money partners;
- And much, much more.

As a special treat, I'm making this audio available for PropertyInvesting.com subscribers for Free until Friday the 7th of July, and would encourage you to benefit from it while it's online.

You can listen to the full audio for FREE right now at:
<http://propertyinvesting.com/go/134>

Important Time-Sensitive Information For Investors Wanting To Make Tax Savings

Hopefully, between Mark's article and the audio resource, your accounting-brain is now ticking over and thinking about how you can improve the way you are investing, and legally reduce the amount of tax which you pay.

It's no secret that Australia's richest investors use structuring techniques to maximise their investment returns by minimising both tax and risk.

These individuals spend tens of thousands of dollars each year on accounting advice, knowing that a good structure will pay dividends in the form of decreased tax bills and a safe and secure investment portfolio.

For most people though, this kind of knowledge is either too expensive to obtain, or too hard to understand. In fact, most accountants don't have the knowledge or skills to be able to provide their clients with the necessary information in an easy-to-understand format.

Instead clients blindly accept what their accountants tell them, which is a massive mistake because they immediately begin to lose control over their investments by not understand their structure.

Worse still, if you don't have the right structure in place at the beginning of your investing journey, it can end up costing you thousands, even hundreds of thousands of dollars to fix later on down the investing track.

(Trust me - I know because one (painful) mistake I made early in my investing career cost me tens of thousands of dollars to fix - money which could have been put towards deals!)

What's more, unless you have the right asset protection in place, your property investing empire can be vulnerable to issues such as litigation, and all the work you have done to build your empire may crumble beneath your feet.

If you're serious about putting yourself in the best possible asset protection and tax position, I would encourage you to invest in educating yourself in these topics by securing a copy of WealthGuardian.

WealthGuardian is one of only a tiny handful of detailed accounting and tax information resources designed for property investors. Its purpose is to make these complex topics easy to understand, without watering down the information.

(This easy-to-understand presentation of detailed accounting principles is something which WealthGuardian has received a lot of praise for - from qualified accountants to beginner investors.)

Over an hour of audio (on CD), and 180 pages of detailed yet easy-to-understand explanations of accounting topics, WealthGuardian, you will learn:

- **The 4 components that every wealth creation plan MUST cover.**
- The proven three issues every investor should consider when working out an appropriate structure.
- **How the right structure may help improve your ability to obtain bank finance.**
- Why using a partnership can be dangerous to your financial wealth.
- **Why you should never buy an appreciating asset in a company!**
- How you can use the same model as used by the very rich to protect your assets.
- **Tips and strategies for using property to legally reducing your income tax. (Not the usual negative gearing guff!).**
- Insights into accounting and tax for investors with portfolios overseas (information not available elsewhere).
- **And much, much more.**

To sit down with your accountant one-on-one to get this same information so that you can make an informed decision about what structuring option is right for you - the consultation could easily exceed $1,500!

But because my focus this month has been on equipping you with tools and tactics to improve your asset protection and tax position around tax time, I want to encourage and assist you to continue this theme of arming yourself with information.

That's why I'm offering a gift of an additional $50 off WealthGuardian for anyone who invests in this information over tax time, and secures their copy online at:
<http://propertyinvesting.com/go/133>

This means you can secure your copy for just $288 - however this discount expires on Friday 7th of July, 2006 at 5:00pm.

Plus! As an added benefit to people who are able to take action before 30 June 2006 - if you are entitled to claim a tax deduction for WealthGuardian, you will be able to claim back the cost of WealthGuardian immediately rather than having to wait until June 2007.

(As always, speak to your accountant to find out definitively whether or not you are entitled to this potential tax deduction.)

Here's some of the feedback we've received:

> *"I just received my copy of WealthGuardian... WOW! It's helped answer many of my questions and now when I go see my accountant, I can just tell him the structure that I want which will save me both time and money! I thoroughly recommend this resource to all investors." -* ***Ray C.***
>
> *"I've received the Wealth Guardian booklet and CD. I've listened to the CD and am working through the booklet. They are an excellent resource and easy to understand. What a bonus item!" -* ***Eddie S.***

For more information, or to secure your copy now, visit:
<http://propertyinvesting.com/go/133>

Final Words

Thank you to Mark Unwin for his great insights into tax for property investors!

There were certainly a lot of great insights in this month's edition, so hopefully they have helped you to get the most out of this financial year, and the next!

Until next time, remember - Success comes from doing things differently!

Warm regards

Steve McKnight

P.S. - Don't forget! - if you plan on purchasing WealthGuardian and claiming the tax deduction this financial year, you only have until 11:59pm TOMORROW (Friday June 30th!) - so hurry before you miss out!

Visit <http://propertyinvesting.com/go/133> for details.

Disclaimer: This newsletter is not intended to be a substitute for investment or accounting advice. It is a broad discussion to provide a general understanding. Before acting, you should seek specific advice for your unique situation.