



# Middleton Partners

CERTIFIED PRACTISING ACCOUNTANTS

“Continuing the tradition of Personal Professional Service”

e-Bulletin FEBRUARY 2006

Welcome to our *Middleton Partners e-Bulletin* covering items that may be of interest. Please read and contact our office if further information, action or clarification is required.

## **Important – State Land Tax Provisions**

The State Government in an attempt to tighten land tax obligations has introduced provisions that will affect most trusts that hold real property assets. Land tax is a State and not Federal tax and as such does not involve the Australian Taxation Office.

The legislation, in brief, requires trusts to now pay land tax on property assets held by the trust.

This rate can be reduced if the trustee notifies the State Revenue Office of a beneficiary entitled to a beneficial interest in the property. The nominated beneficiary will then be assessed for stamp duty on the aggregate of their properties held – which will obviously include the property held (but nominated) by the trust.

The trustees of trusts are required to notify the SRO of all properties held by **31 MARCH 2006**.

We will be sending more detailed information to trustees that we believe may be affected by this legislation within the next 14 days – however it is the duty of all trustees to consider the position of their trusts and contact our office for further information. If you do not receive some communication from our office we suggest that you contact us directly to ascertain the relevance of these provisions to your particular circumstances.

Additional information can also be located at [www.sro.vic.gov.au](http://www.sro.vic.gov.au).

## **Borrowing Expenses**

Some clients have expressed some uncertainty as to what costs can be claimed in respect of obtaining business loans – which also includes loans for a rental properties.

If costs are incurred to obtain a loan, the costs of arranging that loan are allowable to the extent that the loan is used to produce assessable income.

Expenses claimable under this heading include –

- legal expenses associated with the mortgage documents
- valuation fees incurred;
- procuration fees and mortgage insurance (if any);
- stamp duty payable on mortgage documents (not stamp duty on the property itself); and
- any other cost items for taking the loan.

If the total costs are less than \$100, they can be claimed in the income year the expense is incurred.

Where the costs exceed \$100 the deduction of borrowing expenses is spread over the lesser of period of the loan, and 5 years. The actual claim is best spread on the basis of the frequency of payments.

If made monthly, and the loan is over five years, the 'costs of borrowing' would be divided by 60. The claim each year is that figure multiplied by the number of monthly payments due that year.

WARNING: If the 'costs of borrowing' came to \$720, and the loan was for a three year period, the monthly instalment of borrowing costs is \$720 divided by 36, or \$20 per month.

### Early repayment

When this occurs, and some of the 'costs of borrowing' have not been claimed, claim the balance in the year the loan is paid out. Generally any so-called 'rebate' given when a loan is paid out is merely a figure to adjust the interest. Any refund would diminish the final claim for the 'costs of borrowing'.

Mortgage protection insurance for a bank loan used to purchase an income-producing asset is deductible under s.25-25 ITAA97.