

Property

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Peter Bembrick of HLB Mann Judd Sydney

HOLIDAY HOUSE TAX REDUCTION

Getting the lawns mown at a holiday house you've owned since 1991? Keep the receipt. **Report: Ben Hurley**

● It only takes a drive through Noosa in Queensland or Palm Beach in NSW to see more people want to get out of the coastal holiday market than in, if the rows of "for sale" signs are any indication.

But accountants say those who are selling may pay thousands of dollars more in capital gains tax than they should because they don't know to deduct a range of maintenance and holding costs that have built up over years or even decades.

When selling a property and calculating capital gains tax, the property's "cost base", or how much it cost to buy, is subtracted from the final sale price. The leftover windfall is halved and then added to the individual's taxable income for that year.

It's a lot of money, especially in newly popular areas where the humble family shack has become sandwiched between multimillion-dollar beachside mansions.

Take the sleepy coastal town of Vincentia in Jervis Bay in NSW, where the median house price almost doubled during the property boom of the early noughties.

According to RP Data, the median price for a house in Vincentia was about \$250,000 in 2001 and more than \$450,000 in 2004.

What many people don't realise, says tax partner Peter Bembrick of HLB Mann Judd Sydney, is the cost base can be expanded by adding expenses involved with holding the property, including council rates and water bills, major extensions or repairs, strata levies, garden maintenance and interest on mortgage repayments.

This can narrow the taxable part of



Life's a beach: You can deduct a range of maintenance and holding costs from your CGT bill

the sale by many thousands of dollars.

Owners of rental investment properties are well accustomed to deducting outgoings like these from their annual income. But Bembrick says owners of holiday homes, which are often not earning much of an income, don't realise they can also make these deductions when it comes time to sell.

"If it's a holiday home pretty much everything you are spending will get into the cost base," Bembrick says. "Over the years it would be in the order of thousands of dollars. It's enough to be worth putting a bit of effort into."

The problem is that many people don't keep their receipts, particularly for houses that have been in the family for decades. He says it is important to keep receipts for all expenditure from the moment of purchase, including legal fees, stamp duty and any other costs relating to the purchase.

"For owners of holiday homes, this may mean keeping invoices for many years and can accumulate to a significant reduction," Bembrick says. "With people who don't necessarily have the records, if they sell they have had to go back and reconstruct it which can be quite difficult."

Demand for holiday houses dried up overnight when the financial crisis hit

and has not recovered since. Many people holding them are finding it hard to justify the land tax bills without the capital growth windfalls that were free flowing a few years ago.

But keeping your receipts is just as important if the property is sold at a loss, which is pretty common at the moment. A lot of luxury homes in coastal holiday areas such as the Gold Coast in Queensland or Dunsborough in Western Australia have fallen in value by well over 20 per cent in the past three years. That loss can be used to offset other gains, such as in the sharemarket.

"You might think it's a profit when you look at what you paid for it but if you add up what you spent on it over the years it could become a loss," Bembrick says. "If you do sell and you end up selling at a loss, that becomes a loss to offset other gains such as shares."

The biggest savings would be for properties bought after 1985 when capital gains tax was introduced. Properties bought before 1985 do not receive capital gains tax when sold and if they are handed down as inheritance, the "cost base" begins at the property's value at the time of death.

Outgoing running costs can be added only to the cost base of properties bought after August 1991. BRW



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