

## **AUSTRALIA – TAX CONSIDERATIONS ON SHORT TERM LETTINGS**

The following information can help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Australia.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Australia, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you;

- Income taxes
- Goods and Services Tax (GST)

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

### **INCOME TAX**

Where an individual earns income in Australia, it is likely that they will be required to pay a percentage of the tax on this income to the Australian Tax Office. Below is a brief outline of tax that may arise on income earned from short-term lettings in Australia and some information on how this tax can be paid over to the Australian Tax Office.

**Australia's tax year** runs from 1 July to 30 June.

#### **Reporting tax in Australia.**

If applicable, you must lodge individual income tax returns with the Australian Taxation Office (ATO) following the tax year end. Individuals with certain types of income have the option to lodge online through the myGov website. Alternatively, you can lodge your returns with the assistance of a tax agent. Tax returns are generally lodged electronically with the ATO however, you can lodge by paper if you wish.

Paper filing is not recommended as paper returns take a significantly longer time to process.

#### **Reporting tax - filing deadline.**

If you are lodging your return without the assistance of a tax agent, the deadline for filing is 31 October following the 30 June year-end of the relevant year. If you are using a tax agent to lodge your tax return, you can avail of the extension. In this case the filing deadline may be extended to 31 March or 15 May of the following year.

The deadlines are the same for paper and electronic filing.

#### **Reporting tax - payment deadline.**

Payment of a tax liability is generally due 21 days from the date the Notice of Assessment is issued. The exact due date will however depend on whether you use the services of a tax agent and avail of the extension (noted above) and whether the return is lodged timely.

### **Australia Tax Authority contact details.**

Please find contact details for the Australian tax authority below:

Australian Taxation Office  
GPO Box 9990  
*IN YOUR CAPITAL CITY*  
Contact number: 13 28 61

### **Australia income tax rates.**

In Australia, individuals are only subject to income tax at a federal level. For the year ending 30 June 2019, the following tax rates apply on taxable income for full-year tax residents:

- 0 - \$18,200: Nil
- \$18,201 - \$37,000: 19c for each \$1 over \$18,200
- \$37,001 - \$90,000: \$3,572 plus 32.5c for each \$1 over \$37,000
- \$90,001 - \$180,000: \$20,797 plus 37c for each \$1 over \$90,000
- \$180,001 and over: \$54,097 plus 45c for each \$1 over \$180,000.

The above rates do not include the Medicare levy of 2%, which is payable by all Australian tax residents and some temporary tax residents.

### **Tax free threshold.**

If you are a resident taxpayer and your total taxable income for the relevant tax year is below \$18,200 (i.e. the tax free threshold), you will not be subject to Australian income tax.

### **Australia specific rules applicable to income earned in relation to short-term lettings.**

Australia does not differentiate between short-term and long-term rental income. Tax treatment is the same for all rental property types where the individual is not carrying on an enterprise or renting out commercial premises.

### **Typical expenses that can be deducted from an individual's income in relation to short-term lettings.**

Some common rental deductions include:

- mortgage interest,
- land tax,
- council rates,
- water rates,
- maintenance expenses such as gardening,
- utilities,
- rental agent fees and
- advertising expenses.

Expenses claimed must only relate to the rooms rented and for the period of time that the rooms are being rented.

You cannot claim a deduction for any expenses which have been paid for by the tenant.

*Note:* If you are carrying on a rental property business, differing taxation rules can apply. For example, certain additional deductions may be claimed where it is a genuine business that is carried on.

### **Deductions available for tax depreciation (e.g. capital allowances / wear and tear).**

Generally, only depreciation on capital works (construction/building costs) may be claimed at a rate of 2.5% each year.

Capital assets that are purchased and used solely for an income-producing purpose (i.e. these assets must not have ever been used for private purposes) may be depreciated over their effective life. The effective life of an asset is determined by the Australian tax office and you have the option to use either straight line or diminishing value methods of depreciation.

### **Australian income tax obligation for non-resident individuals.**

If you are non-resident you are taxable on Australian sourced income only and you become taxable on the first dollar of taxable income you earn. Therefore, as a non-resident you are liable to pay income tax and file an income tax return if you earn any Australian taxable income, which includes income from short-term lets located in Australia.

### **Australian income tax obligations for an Australian individual in receipt of foreign rental income.**

If you are an Australian tax resident you are taxable on your worldwide income and are therefore taxable on foreign rental income.

### **General property taxes payable.**

Land tax is payable to the revenue authorities of the relevant state. Land tax applies to all income producing properties where the land value exceeds a certain threshold. It is assessed each year based on the value of the land as at 31 December. Land tax thresholds and rates differ depending on the state in which the property is located.

Council rates are also generally payable to the local municipality - the rates do however differ.

### **Capital taxes in Australia.**

Capital gains tax (CGT) will arise on capital gains from the sale of any Australian property used for income producing purposes. There is no separate tax rate applied to capital gains. CGT is payable in the relevant income year that the sale occurs, at the taxpayer's marginal income tax rate.

Australia does not differentiate between short-term and long-term rentals from a CGT perspective. However, where the property is owned for more than 12 months, if you are a resident taxpayer you may be entitled to a 50% discount, whereby you are taxable only on 50% of the capital gain. The relevant tax liability is then payable on assessment of the annual tax return.

Australian residents, temporary tax residents and non residents of Australia are liable to pay CGT on real property located in Australia.

Subject to limitations, some taxpayers may be eligible for a partial exemption from CGT if they have used the property as their main residence for a portion of their ownership period.

### Sample Computation

Laura owns a 2 bedroom house in Australia. She occasionally rents out the spare room in her house at the weekends.

The total gross rent received for 2018 was \$10,000.

Laura incurred the following expenses in relation to her entire house in 2018:

		\$
Gross rental income		10,000
Expenses		
	Council rates	(1,000)
	Mortgage interest	(10,000)
	Water rates	(500)
	Gardening	(300)
	Land tax (based on the assessment from the New South Wales Department of Revenue)	(3,000)
Calculation of taxable income		
Gross rental income		10,000
<i>Less: allowable expenses</i>		
	Council rates	(68) [1,000 * 0.5 * 50/365]
	Mortgage interest	(684) [10,000 * 0.5 * 50/365]
	Water rates	(34) [500 * 0.5 * 50/365]
	Gardening	(20) [300 * 0.5 * 50/365]
	Land tax (based on the assessment from the New South Wales Department of Revenue)	(205) [3,000 * 0.5 * 50/365]
<b>Taxable net rental income</b>		<b>8,989</b>

Where you are renting only part of your home, you can only claim expenses associated with the renting out of that part of the house. As a general guide, you should apportion expenses on a floor-area basis based on area solely occupied by the renter (user), and add that to a reasonable amount based on their access to common areas.

In addition, where your home is only available for rent during parts of the year (e.g. only on weekends), your expenses should also be apportioned for this.

*\* Please note that for the purposes of this calculation, it has been assumed that the floor-area apportionment in this instance is used 50% for personal use, and 50% is used by the tenant. It has also been assumed that the room was available for rent for 50 days during the 2018 tax year.*

## **GOODS AND SERVICES TAX**

GST can be complicated and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, GST in Australia is a tax on consumption. Most goods and services supplied in Australia are subject to GST.

### **Do I need to collect any GST from guests if I am letting short-term accommodation in Australia?**

Generally, in Australia, GST is not required to be charged to customers where you supply holiday accommodation. Therefore, if you let accommodation on a short-term basis in Australia, you will not be required to register for GST and charge GST to your guests. However, as an exception, if your letting of accommodation on a short-term basis is considered to be a supply of commercial accommodation, and your annual turnover from this supply exceeds \$75,000, you should register for, and charge, GST to your customers in Australia. Holiday accommodation will be considered to be commercial accommodation when it is capable of multiple occupancy at any given time, and includes central management. For example, hotels, motels, hostels and boarding houses.

Where you are a person who is not resident in Australia, but your accommodation is located in Australia, then you should also register for Australian GST as the same general rules apply to you.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge Australian GST.

### **GST applies to me. How do I determine how much tax I need to collect from my guests?**

GST rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date GST rates for the country where you are required to pay GST.

For example, at the date of issuance of this document, there is no Australian GST rate applicable to the supply of holiday accommodation. However, if you are supplying commercial accommodation, you should be liable for GST and should be able to charge your guests GST at a rate of 10%, or 1/11 of the GST inclusive price should apply.

There are other GST rates and/or concessions currently in force in Australia, so we recommend that you confirm with a local tax advisor the GST rate applicable to your supplies.

### **GST applies to me. How do I collect GST from guests?**

If you determine that you are liable for GST on the supplies that you make to guests, please keep in mind that you have to collect this GST from your guests and report and remit this GST in a periodic GST return.

In Australia, GST returns are generally filed on a quarterly basis. The deadline for the submission of the returns is the 28<sup>th</sup> of the month following the quarterly period end i.e. your GST return for the January-March period is due to be filed on the 28<sup>th</sup> of April (except the GST return for the October-December period which is due on the 28 February). Payment of any GST liability is due to be made on the same day as the filing deadline.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. Please find more information on this [here](#).

Where GST applies, your pricing to guests is the GST inclusive price. We recommend that you check your obligations in terms of relevant invoice requirements with a local tax advisor.