

BAN TACS CHECKLIST

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BAN TACS Accountants Pty Ltd

BAN TACS
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CAPITALISING INTEREST RULING APPLICATION CHECKLIST

Contact Details

Name: _____

Address: _____

Preferred contact phone number: _____

Capitalising Interest - Ruling Application Checklist

This checklist is designed to help people who have decided to use the rent from their rental properties to pay down their non deductible debt. You may have various reasons for doing this such as owning your own home as soon as possible or due to a financial crisis you may have found it necessary to redirect the rent to your home loan. Whatever the reason you want to be sure that the ATO does not consider your dominant purpose to be a tax benefit because they could then deny you the tax deduction under Part IVA. If they consider your dominant purpose to be a tax benefit then they can deny you a tax deduction for the interest on the interest that had to be capitalised because you did not use the rent or for that matter other funds to meet the monthly interest liability. The ATO can't just say there is a tax benefit so you are caught. Such a simplistic approach would (to use an example from our ruling) be to say walking into a newsagency to buy an invoice book suddenly became a scheme to acquire a tax deduction. The ATO would have to be convinced that a reasonable person would consider your dominant reason for redirecting your rent to your home loan to be to obtain a tax benefit. Considering how many Australians spend 20 years of there working life trying to pay their home of as soon as possible, a dominant purpose of a tax benefit would be difficult to argue.

From the above you can see that the chances of Part IVA applying simply redirecting the rent to your private borrowings are limited if your intentions are clear and your arrangement does not break the nexus of borrowing for an income producing asset. Nevertheless, you need to consider the ATO's concern about the huge risk to revenue of this arrangement. Accordingly, we recommend you apply to the ATO for your own private ruling so you can be certain about your personal arrangement and sleep soundly at night.

The following is a checklist to streamline the ruling application process. If yours is a relatively simple case with one or two rental properties then a ruling application preparation will only cost you \$350. If the cost will exceed this we will be able to estimate the cost from this checklist and will give you a quote before proceeding. In many cases the ATO will ask for further information or have additional questions, attention to these matters will be an additional charge at our normal charge out rates.

On the other hand if after reading the above you wish to go ahead with redirecting rent to your private debt, without a ruling we will prepare you tax return on that basis providing you sign the following disclaimer:

Choosing Not To Apply For A Ruling:

I/We, _____ understand that Part IVA has far reaching powers to void arrangements that achieve a tax benefit but are satisfied based on the above and our own judgement that it would not apply in our circumstances. Therefore we request that you prepare my/our tax return/s claiming the capitalised interest without first applying to the ATO for a ruling on the matter.

Signed:

Dated:

Check List for Ruling Application

Information you need to supply:

- 1) Bank statements for both the home loan and rentals. Make sure all statements for the whole period of the loans are included.
- 2) Rental property schedule from previous tax returns – if this is the first year then we will need the amount of rent received, expenses such as rates, insurance, repairs and depreciation claimable.
- 3) Title ownership details of property
- 4) Wages income etc – ie payslip
- 5) Estimate of living costs
- 6) Original Cost of Rental Properties
- 7) Estimated market value of all properties including your home
- 8) The contracts for all loans

PAYG Variation:

While preparing your ruling application would you like us to prepare a PAYG variation based on an expected positive response?

Yes

No

Preparing this variation while applying for the ruling will be more efficient so it will only cost another \$100. In addition to the above information we will require a current payslip which includes year to date figures and the phone number and postal address of your employer. Please also advise if you have had more than one employer during the year.

A PAYG variation means that instead of waiting until the end of the financial year for your tax refund. The tax deducted from you wages each pay day will be reduced. This will further assist you in paying off your home loan sooner.

Authority To Apply For A Ruling:

I/We, _____ authorise
BAN TACS Accountants to prepare a ruling application on our behalf regarding the
capitalising of interest on our rental property loan and the redirection of the rent to our non
deductible debt. I/We declare that the information we have provided is true and correct:

Signed:

Dated: