

Tax tips: how property can save you money

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That time of the year again - 28 February was the closing of the annual tax season for the period 1 March 2013 to 28 February 2014.

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Once your IRP5 has been submitted you anxiously await the decision made by SARS as to whether you need to pay in, or hopefully, that you receive a refund directly into your bank account.

Either way, it is time to reflect on the coming financial year-end 28 February 2015, and to start planning on how best to focus on your financial growth. By having your income submitted to SARS you could generate a positive cash flow. For you to benefit from tax deductions, the ideal investment would be in property. It is known that to have a successful property portfolio to increase your net worth is possibly the best investment you could consider.

Purchasing property with the idea of generating a rental income, will not only cover your bond, but also allow you to claim for certain expenses you may incur with this rental property.

Consult a tax advisor

According to Johan Swart, tax manager at Legal & Tax, SARS should allow the following deductions against the rental income received:

- If your property is bonded, the portion of interest paid on the dwelling, in relation to the property.
- You can claim depreciation on the furniture and appliances, but it is a minimal 15% per annum, at the depreciated value.
- Renovation costs are not as straightforward. If the renovations were improvements, for example new cupboards and tiles were fitted to a kitchen, it would not be tax deductible against rental income received, but would be capital in nature. Record of these costs must then be kept to be taken into account against any capital gain, should the property be sold. If the renovations were new paint, replacement of old carpets etc., it would be maintenance and repairs, and would be deductible against the rental income received.
- As a summary, rental income is taxed at specific rates and those expenses actually incurred, that can be deducted from SARS, would be: levies; rates and taxes; interest payments on bond; insurance premiums; agent's commission; repairs and maintenance costs; collector's income; bank charges.

All income must be declared to SARS, therefore the total rental you receive must be included on your annual tax return. If SARS finds out about additional income, by means other than a declaration by the taxpayer, it will lead to additional penalties over and above the normal tax payable.

Absa's Buy-to-Let Home Loan

Absa promotes their Buy-to-Let Home Loan by stating that with Absa as your property investment partner, you will enjoy access to a customisable Buy-to-Let Home Loan that can be tailored to suit your specific investment needs, together with competitive interest rate options and flexible repayment terms.

Available to non-South African residents as well, this loan can be registered in the name of legal entities, such as companies and trusts, as well as individuals. There is no need for a proven rental on new property, the rental income will be deemed to be 1% of the property value or purchase price.

If you want to acquire residential property with a view to rent it out, and would like to use all or part of the rental income to cover your monthly repayments, discounts on attorney conveyancing costs and a choice of repayment terms of up to 30 years, then a Buy-to-Let Home Loan could be the right choice. It also offers fixed or variable interest rate options.

As cautioned by Craig Hutchison, CEO of Engel & Völkers Southern Africa, before buying your second home, ensure you are assured of maximising your money's potential. Be clear on what your objective and budget is, understand there is a risk, and be involved with the management of the whole rental process. Nobody else will look after your money as well as you do.

It is thus advisable, he continued, to work through an established real estate company such as Engel & Völkers, as we and other international agencies are able to provide you with numerous property choices to suit your requirements.

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