Property investment: How to make your tax returns work in your favour

Through wise investment and managed expenditure, property investors can reduce the amount of money owed to the South African Revenue Service (SARS), explains Craig Hutchison, CEO Engel & Völkers Southern Africa.

The benefit of owning an investment property, whether it be in an individual capacity, as a company or in a trust, is that all expenses are deductible from the rental income before tax is calculated. These costs typically include property management fees, municipal rates, levies charged by body corporates, repairs and maintenance, insurance premiums and municipal service costs that are paid by the property owner.

Proper accounting records therefore need to be kept in order to provide SARS with supporting documents for the deductions claimed, if required to do so. Furthermore, the rental income should be added to any other taxable income the owner may have received. Any amount paid to you in addition to the monthly rental is also subject to income tax. A refundable deposit paid by a tenant is not taxable, provided it is kept separately in a trust account and is not used by you. If it is forfeited by the tenant, then it is taxable.

Do your research

“Investing in property in a good area where there is a high demand for rental homes will go a long way in making tax returns work in your favour. Whether investing in property for long term leasing or you’re wanting to let out a holiday flat short term in a high tourist area, do your research and capitalise on something that fits with your financial capacity,” says Hutchison.

In terms of a residential property that is buy-to-let, the following expenses are deductible:

- Rental agent's commission or fees for securing a tenant.
- Advertising costs of marketing the property.
- Levies, municipal rates, insurance fees, water and electricity.
- Interest paid on the home loan if applicable.
- Cleaning costs, garden service and security.
- Repairs and maintenance costs (excluding improvements to the property – this would be deducted from capital gains tax).

"As a landlord, deducting the non-capital expenses from your tax return will reduce your taxable income. However, before embarking on your landlord journey, it is advisable to chat to a professional real estate company, your accountant, a financial advisor or a tax specialist so that you fully understand both the financial implications and tax benefits."

"The start of the new financial year is akin to spring, a time to clean up, make new plans, new investments and sharpen your financial acumen for the year ahead. It is also a good time to find that perfect buy-to-rent property," concludes Hutchison.