Tax tips for landlords

By Adrian Goslett

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Owning a rental property portfolio that provides an income is much like owning a business. This means that there are tax implications and dues that need to be paid to the South Africa Revenue Service.

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As a landlord, you are required to declare the total amount of rental income received as part of your taxable income. While you are required to declare the total income acquired through letting out your property, there are certain deductions that can be made, such as a non-capital expense.

To clarify, a landlord is obliged to incur certain expenses during the period that the property is let out. Deducting these non-capital expenses from your tax return will reduce the taxable income and possibly put you in a lower tax bracket, which will be to your benefit.

Examples of non-capital expenses include the following:

- Rates, taxes, security, and property levies
- Interest paid on the home loan (if applicable)
- Advertising costs of marketing the property
- Rental agent's commission or fees for securing a tenant
- Insurance (only homeowner's insurance and not insurance for household contents)
- Garden services (if applicable)
- Repairs in respect of the area let (excluding improvements to the property)

On the other hand, expenses that are regarded to be of a capital nature cannot be deducted. These would include any expenses incurred while renovating or adding on to the property. If the tenant has moved out of the property and you decide to make repairs to the home to sell it, these expenses cannot be deducted as they did not happen while the tenant occupied the property.

If the total of the deductions exceeds the rental income received and you wish to declare a net rental loss, the Income Tax Act contains a ring-fencing provision that may come into play depending on the circumstances. If the provision does apply, you will not be able to offset your rental losses against income received from other sources.

Be warned that evading paying tax on rental income will get you into deep financial water. Rental agents are obligated to provide SARS with a record of the rental income received and paid over to landlords. As a result, it is very easy for SARS to find any discrepancies in the landlord's tax return. If found guilty of evading tax after notification of an audit, you could be facing a hefty penalty or worse – imprisonment.

As a landlord, figuring out tax deductibles can sometimes be a rather difficult task. While all taxable income must reflect on the return, reducing it by the relevant expenditure will assist in reducing the amount of money that leaves your back pocket. If there is ever any area of doubt, it is best to consult with a professional financial adviser or tax consultant who can provide assistance and guidance through the process.

ABOUT ADRIAN GOSLETT

Adrian Goslett is CEO and regional director of RE/MAX Southern Africa. He joined RE/MAX Southern Africa in 2005 as a franchise development consultant, supporting various regions and offices. Throughout his career at RE/MAX he has held various positions. In 2010, after successfully leading 160 offices and over 1500 agents in six countries through the worst years real estate has ever seen in South Africa in 30 years, Goslett was appointed as CEO of RE/MAX Southern Africa.

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