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A GUIDE TO Strata Income Tax Matters

How does income tax apply to strata companies?

Under Australian tax law, any income that is derived from assets owned by the strata company is generally considered to be assessable for income tax purposes. Such assets can include cash, financial assets (eg: shares), physical assets (eg: laundry machines) and even the strata company's records.

Strata companies are entitled to claim certain deductions against their assessable income and the net result ('taxable income') is subject to income tax at the prevailing company tax rate.

The most common examples of assessable income in strata are:

- interest earned on investments
- laundry collections, and
- funds received for providing status certificates

What about other sources of income?

Levies: The ATO has long recognised that levy income is effectively payment by owners - to owners. The principle of mutuality applies to such income (ie: 'one cannot make a profit out of oneself') and therefore levy and arrears income earned by a strata company is not assessable for income tax purposes.

Common Property Income: The various State and Territory strata Acts differ in their description of how common property is legally owned. Notwithstanding this, the ATO applies the consistent treatment to all strata companies that income derived from the leasing of common property (eg: phone tower income) is assessable to the owners in their own personal tax returns... and not to the strata company itself.

Note: See our 'A Guide to Common Property Income' flyer for the correct tax treatment of common property income.

What are our obligations?

Strata companies are treated as public companies for income tax purposes in line with <u>TAXATION RULING 2015/3</u>. They are required to lodge an annual company tax return each year declaring any assessable income* earned during the previous financial year (July – June) and to pay the outstanding balance (if any) before the applicable due date.

For any year in which no assessable income is earned, a strata company is required to notify the ATO that no tax return is required for the year via a Return Not Necessary (RNN) submission. Failure to either lodge a tax return or submit a RNN will put the strata company at risk of non-lodgement penalties from the ATO.

*It is worth noting that it is the 'earning of income' and not necessarily the 'making of a profit' that necessitates a tax return.

What are the costs involved?

Click here to find out more >



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