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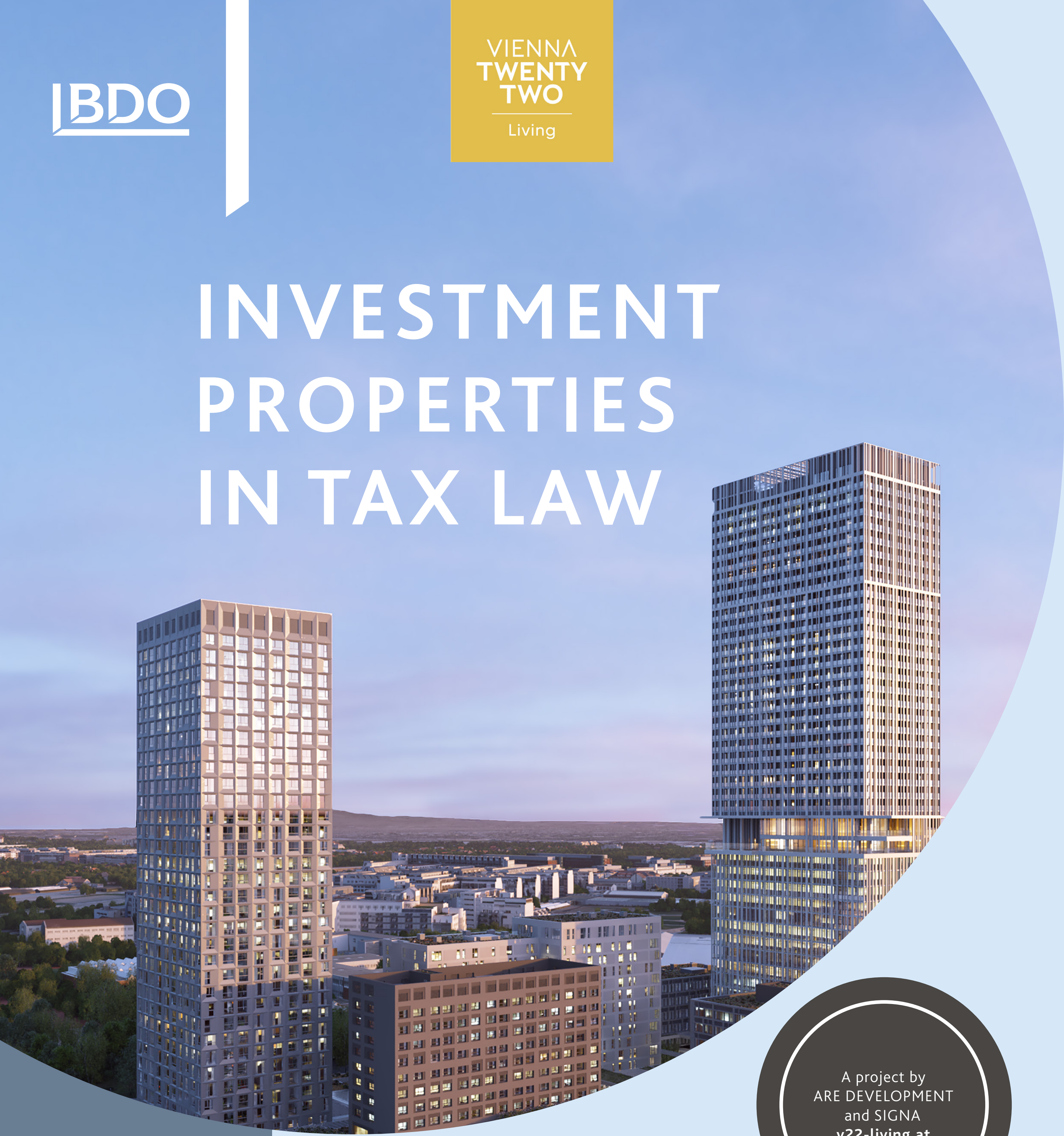
INVESTMENT PROPERTIES IN TAX LAW



A project by
ARE DEVELOPMENT
and SIGNA
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ARE AUSTRIAN REAL ESTATE

SIGNA

INVESTMENT PROPERTIES IN TAX LAW

Developments on the international financial markets in recent years have shown that it makes sense to invest at least part of your assets in real estate. Real estate investments offer a certain degree of security for the future (e.g. pension provision) through tax incentives, stable value and the prospect of increased value. Investment properties in particular have therefore developed into an independent financial product in recent years.

In investment housing projects, investors directly acquire residential property in certain residential units as part of the construction of buildings. Once the building has been completed, it will be rented out.

The investment property as part of the retirement provision concept is a freehold apartment financed with own and/or borrowed funds that is rented out on a long-term basis. The repayment of the borrowed capital is financed with the rental income so that a debt-free property is available at the latest upon retirement. Thus, the rental income generated later serves to improve the pension.

The ultimate return on an investment property results from a combination of

- rental income,
- increase in value and
- use of tax advantages.

YOUR BENEFITS

+26.9% for apartment prices
in the last 5 years

+4.1% Demand for rental apartments
in a central location in 2019

+4.3% for rental prices
with free rent formation in 2019

ACQUISITION

- Real estate transfer tax: 3.5% of the purchase price
- Registration fee: 1.1% of the purchase price
- Acquisition with or without sales tax possible

INCOME TAX

- Rental income from investment property is non-business income in accordance with Section 28 (1) paragraph 1 of the Income Tax Act
- The income must be recorded using a surplus calculation according to the inflow-outflow principle
- Annual depreciation in the amount of 1.5% of the proportional building acquisition costs including ancillary costs (usually 30:70 division of the land and building share)
- Financing interest and ancillary costs as well as maintenance expenses are deductible as tax allowable expenses
- Rental and leasing income is subject to the progressive income tax rate
- Loss compensation with other types of income (e.g. salaried employment) is possible (but exercise caution with hobbies)
- A loss carryforward is not possible

SALES TAX

- Rental for residential purposes is subject to a sales tax rate of 10%
- Input tax can be deducted for expenses relating to the rental (purchase price, ongoing expenses)
- However, small businesses (turnover < EUR 35,000) are exempt from sales tax. You are therefore not entitled to any input tax deduction (however, the option to pay VAT is possible)
- Asserted input taxes must be corrected proportionally in the case of personal use or sale without sales tax

ASSESSMENT

- The first rental of an investment property must be reported to the relevant tax office
- The tax office issues a tax number for the purpose of assessing income and sales tax
- A sales tax identification number will be issued upon request

PRIVATE USE

- In the case of exclusively private use, no tax allowable expenses or depreciation may be claimed
- In the case of initial rental and subsequent private use, there is a risk of retrospective hobby consideration

HOBBY

- If no total surplus is achieved within a foreseeable period (cumulative income exceeds the cumulative tax allowable expenses), it is a hobby
- This would result in the (possibly retroactive) withdrawal of the tax losses (and a subsequent taxation)
- The total surplus is to be forecast
- The forecast period is 20 years plus 3 years for start-up losses
- The amount of rent is to be set in such a way that a total surplus can be expected over the period mentioned
- Surpluses from sales are not taken into account

SALE

- The sale of the investment property is subject to real estate income tax of 30%
- Alternatively, an application can be submitted for standard taxation (taxation at the progressive tariff)
- If used as your main residence (2 years after acquisition or in 5 of the last 10 years), there is no real estate income tax
- A sales loss can only be offset against profits from other property sales or, in part, with future income from renting and leasing

GIFT/INHERITANCE

- No gift or inheritance tax
- Beneficial real estate transfer tax (tiered tariff and favorable property value)

CHANGE HAPPENS. INNOVATION LEADS.

BDO REAL ESTATE

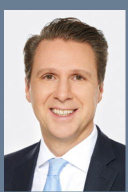
The professionalization of the real estate industry, its internationalization and the increase in transaction volumes have not only led to the further development of methods and standards, but also an increasing complexity of real estate issues. Isolated approaches no longer do justice to this increasing complexity. Rather, a holistic, interdisciplinary approach to real estate is required in order to overcome the future challenges of the real estate market.

In order to meet the increasing demands, the real-estate specific know-how of the Audit, Tax, Advisory, Business Services & Outsourcing departments is combined in the BDO Competence Center. Our experts have extensive industry expertise and the necessary long-term experience to provide you with professional, competent and customized support when you have questions.

The networking of our know-how ensures that all problemsare competently recorded and processed into a holistic solution concept. From the knowledge gained, conclusions and options for action are made clear to you.

About BDO

As your local partner in the global BDO network, we will quickly and efficiently find individual solutions for you in the areas of Audit, Tax, Advisory as well as Business Services & Outsourcing. You benefit from a dynamic company with tradition, which guarantees you a personal contact person for all your questions. They passionately strive to be at your side and coordinate our specialists. Both in Austria and worldwide in more than 167 countries.



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