Ray White Broadbeach Investors Newsletter

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PROPERTY DEPRECIATION: ARE YOU MISSING OUT?

Many property investors are missing out on beneficial depreciation tax claims. Tax depreciation is often an overlooked method of obtaining tax deductions on investment properties. It is a big help in enabling investors to minimise their tax liability and improve their cash flow. Sadly though, we often see situations where depreciation either isn't maximised to its fullest potential, or worse yet, overlooked entirely.

The Australian Taxation Office (ATO) recognises that the value of capital assets reduces over time as they approach the end of their effective life. These assets can be written off as a tax deduction ie. 'Depreciation'.

What depreciation should I be considering?
If you own an investment property (new or old, large or small), two areas of depreciation are available:

1. Plant and equipment
2. Capital works on the building

Different items within a rental property have different rates of depreciation based on the effective life of the item. These items are identified by certified quantity surveyors, who inspect the property assets and then calculate its depreciation through their expertise and knowledge of which items are depreciable and how savings can be achieved.

To claim maximum tax benefits on an investment property the ATO encourages property investors to obtain a fully compliant tax depreciation report prepared by a certified quantity surveyor. You or your accountant will use this report when preparing your income tax return.

Further, some property investors may not realise that they don't have to wait all year to benefit from the depreciation deductions available to them. Instead, they can improve their cash flow throughout the year simply by nominating to use a Pay As You Go (PAYG) withholding variation.

A PAYG withholding variation allows individuals to vary the amount of tax withheld by their employer in each pay to anticipate their tax liabilities. This means that they can take advantage of the deductions available to them regularly, rather than waiting until the end of a financial year for their tax refund. You should speak to your accountant about this.

When to obtain a property depreciation report

Ideally, a depreciation report should be obtained soon after the purchase of an investment property. This enables a quantity surveyor to separate the items included in the purchase price, from the expenses that will be incurred by the new owner in the future. This detailed analysis ensures the maximum investment property depreciation allowances can be claimed.

A depreciation report is critical documentary evidence required by the ATO to support any tax deductions for components of an investment property that are decreasing in value. All investment properties are eligible to have their assets depreciated where, generally speaking, construction costs are incurred after 18 July 1985 and structural improvements are incurred after 27 February 1992. This applies even if the previous owner paid for the construction. In the event thatthe original construction cost data is no longer available, the ATO stipulates that a quantity surveyor must assess this figure.

Where to start – immediate tax depreciation write-offs and the low value pool

Obtaining independent, professional property advice ensures investment property owners stay up to date with the intricacies of tax legislation and can make well-informed decisions that enhance cash flow. For instance, waiting until just before the close of the financial year to buy an asset for an investment property may entitle you to claim the full cost on your tax return for that year. For example, plant and equipment assets valued at $300 or less are generally able to be written off at 100 per cent in the financial year of acquisition.

Moreover, under the Low Value Pool Regulations, certain items can be depreciated more quickly. Items that enter the pool are depreciated at a set rate or 18.75 per cent in the first year but in subsequent years, the percentage rate of depreciation jumps up to 37.5 per cent on the diminishing total.

What can effective property depreciation save you?

In typical situations – say a commercial property investment of around $1,000,000 – using a quantity surveyor and well-prepared depreciation report can result in clear benefits. Potential tax deductions under a well-planned depreciation schedule could total in excess of $27,000 in the first year of claim and over $100,000 for a 10-year period following the purchase of the property. For an individual taxpayer on the top marginal tax rate of 49.5 per cent (2014/2015 individual tax rate), the tax saving would be $13,365 on a $27,000 tax claim.

Of course, depreciation is only one component of owning an investment property and the associated tax deductions. Other deductions could include:

• fees to property management agencies
• repairs and maintenance to the property and its fixtures
• interest payments on mortgages over the property
• council and water rates
• property insurances

The total deductions can be considerable and go a very long way to improving your tax bill at the end of the financial year and throughout your years of investment in the property.

Source: http://www.smartpropertyinvestment.com.au/, Mike Mortlock, *MCG Quantity Surveyors*

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