



Raymond K H Ho & Associates Pty Ltd

– Newsletter for Property Investors Nov 2017

Why wait, earn more now from your investment property

Claiming depreciation and using a Pay As You Go withholding variation can increase your fortnightly cash flow

Though investors often use negative gearing to offset the costs involved with owning a property, most have the aim to eventually use the property primarily as a source of income and to generate wealth.

Property investors evaluating their current financial position and considering what options they can take to improve the cash flow gained from their investment should consider a Pay as You Go withholding variation (PAYG).

What is PAYG?

The PAYG method of tax collection was introduced in July 2000. This method replaced previous versions of the same system, such as Pay as You Earn (PAYE). The PAYG system allows investors to take advantage of deductions regularly, rather than in one lump sum at the end of the financial year.

The PAYG variation estimates your expected tax refund for the financial year and allows your employer to take less tax out of your wages. An Accountant will usually organise the PAYG variation by submitting estimated financial information to the Australian Taxation Office (ATO). This can be done at any time during the year. For property investors, the tax liability is reduced based upon the anticipated deductions like interest, maintenance, rates, and depreciation on a rental property.

Once a request has been made, the property owner's employer will reduce the amount of tax withheld therefore increasing their take home pay in each pay packet.

It is important to note that submitting the PAYG variation does not replace a normal tax return. A tax return still needs to be filed at the end of the year to calculate the actual amount of tax liability.

Property depreciation adds value to PAYG withholding variation

Maximising property depreciation and capital works deductions will increase the cash return for property investors. Property depreciation will strengthen the PAYG withholding variation by reducing the investor's taxable income.

As depreciation is a non-cash deduction; nothing needs to be spent to claim it. The ATO allows investment property owners to claim property depreciation due to the wear and tear and decline in value of a building and the plant and equipment assets contained* over time.

To support your PAYG application, a specialised Quantity Surveyor can produce a property depreciation schedule for property investors. The property depreciation schedule will outline all current and future depreciation deductions for an investment property. Under the PAYG system, the higher depreciation deductions are the less tax an individual needs to have taken from their regular pay packet.

By obtaining a depreciation schedule straight after purchasing an investment property, the new owner can maximise returns immediately through the PAYG withholding variation.

A PAYG withholding variation provides added flexibility for property investors. Having access to the extra money during the year will make it easier to manage cash flow especially when there can be surprise costs. This also provides an opportunity for the property owner to invest the extra money or reduce loan liabilities.

**Under proposed changes outlined in draft legislation (section 2 of Treasury Laws Amendment Bill 2017), investors who exchange contracts on a second hand residential property after 7:30pm on 9th May 2017 will no longer be able to claim depreciation on plant and equipment assets. Investors who purchased prior to this date and those who purchase a brand new property will still be able to claim depreciation as they were previously. Investors should note that these changes are not yet law, as the legislation still needs to be passed through the senate for confirmation. BMT Tax Depreciation remain in discussion with government around the new changes and will keep our clients informed on the outcome. To learn more visit www.bmtqs.com.au/budget-2017.*

Example case study

The following example shows the difference that claiming depreciation made in the first financial year, for the owner of a two bedroom inner city apartment purchased for \$680,000. This apartment attracts a typical depreciation claim of \$16,500 in the first full

financial year. Annual expenses include interest, mortgage payments, management fees, repairs and maintenance.

	Without depreciation	With depreciation
Purchase price	\$680,000	\$680,000
Annual expenses	\$49,000	\$49,000
Annual income (rent)	\$34,000	\$34,000
Total deductible loss (income - expenses)	\$15,000	\$15,000
Depreciation	\$0	\$16,500
Total deductible loss including depreciation	\$15,000	\$31,500
Total refund (based on a 37% tax rate)	\$5,550	\$11,655
Difference this refund could make applying PAYG (per fortnight)	\$213	\$448

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The depreciation deductions in this example have been calculated using the diminishing value method.

This example shows a difference of \$6,105 per annum by applying property depreciation. Under the PAYG system the investment property owner will receive an additional \$235 in their pay packet by claiming depreciation.

Speak with a depreciation expert

A PAYG withholding variation makes a difference to a property investor's regular cash flow. A specialist Quantity Surveyor can add to this by providing a property depreciation report before you submit a PAYG variation request. Quantity Surveyors are one of the few professionals qualified under the Tax Ruling 97/25 to estimate construction costs for property depreciation purposes.

Raymond K H Ho & Associates have formed a relationship with BMT Tax Depreciation, Australia's leading experts in property depreciation to ensure depreciation deductions are accurate and maximised for their investor clients. Raymond K H Ho & Associates clients are entitled to a special reduced fee when they choose to arrange a schedule for their property.

For obligation free advice about an investment property situation contact the expert team at BMT Tax Depreciation on 1300 728 726.

Article provided by BMT Tax Depreciation.

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Please contact 1300 728 726 or visit www.bmtqs.com.au for an Australia-wide service.