Raymond K H Ho & Associates Pty Ltd

– Newsletter for Property Investors Feb 2020

What can you claim when renovating?

More and more Australian investors are choosing to renovate their investment properties before leasing them out. However, investors who live in the property while renovating risk missing out on thousands of dollars in property depreciation deductions.

Property depreciation is generally the second biggest tax deduction after interest, though it's often missed by investors. This is because it's a non-cash deduction, meaning you don't have to spend money to be eligible to claim it.

The Australian Taxation Office allows owners of income-producing properties to claim depreciation deductions for the natural wear and tear that occurs to a building and its assets over time. Depreciation can be claimed for a building's structure via capital works deductions and for the plant and equipment assets contained within the property.

According to legislation introduced in 2017, investors are unable to claim deductions for the decline in value of previously used plant and equipment found in second-hand residential properties. If an investor lives in their rental property while renovating, any newly installed assets will be classed as previously used. Therefore, the investor is potentially risking their tax benefits.

Unless there is good reason, investors who are planning on installing new plant and equipment assets should make these additions after they move out of the property and it has been listed for rent. This will ensure they're eligible to claim the maximum depreciation deductions available.

It's important to note the 2017 legislation does not affect buyers of brand-new property, residential properties considered to be substantially renovated or commercial properties. With this in mind, brand-new property generally holds the most lucrative value for investors from a tax perspective.

Capital works deductions for structural assets such as new walls, kitchen cupboards, toilets and roof tiles are also unaffected by the legislation changes and can still be claimed by owners of income-producing properties. These deductions typically make up 85-90 per cent of a total depreciation claim.

When removing structural assets there may be remaining depreciation deductions available. A process known as scrapping can often be applied, allowing investors to claim these deductions in the year the items are removed.

Despite the 2017 rule changes, there are still lucrative tax deductions on offer for most investment properties. During the 2017/2018 financial year, BMT Tax Depreciation found residential property investors an average first year deduction of almost $9,000.

To ensure you aren't at risk of missing out on valuable deductions, visit www.bmtqs.com.au/apply-online or speak to the expert team at BMT Tax Depreciation on 1300 728 726.

Article provided by BMT Tax Depreciation.
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