Raymond K H Ho & Associates Pty Ltd

Newsletter for Property Investor Oct 2020

What you need to know about building an investment property

When thinking of an investment property, your first thought probably isn't an empty block of land. But did you know that there are many advantages to building an investment property? Not only can you build the property to be fit-for-purpose, there are long-term financial benefits that can boost your cash flow.

You can claim depreciation on all capital works and plant and equipment

Depreciation is the natural wear and tear of a building and its assets over time. You can claim depreciation on the capital works (structural component) and plant and equipment assets (easily removable fixtures and fittings) of an investment property.

A bonus of building an investment property is that you can claim every depreciation dollar available. You can claim capital works for a total of forty years, while plant and equipment is claimed over each asset's individual effective life, in the low value pool or as an immediate deduction.

The effective life of assets will boost your cash flow sooner

Building an investment property gives you the freedom to choose everything from the paint colour to the clothesline.

Low maintenance is always a top priority, it's also important to keep the effective life of different assets in mind. The effective life of an asset determines the number of years that the asset depreciates across. A shorter effective life generally results in a higher rate of depreciation.

For example, carpet holds an effective life of 8 years and a diminishing value rate of depreciation of 25 per cent. While vinyl flooring has an effective life of 10 years and a diminishing value rate of 20 per cent. This means you can claim more from carpet sooner than you would from vinyl flooring.

Remember the low-value pool and immediate deduction

There are several incentives that can accelerate depreciation deductions further for new plant and equipment assets. It's important to remember these when deciding on assets to install when building your investment property.

The low-value pool is available for assets that are valued at, or cost, $1,000 or less. When in the pool, depreciation is accelerated.

The immediate deduction is also available for some eligible plant and equipment assets costing less than $300. This means you can immediately deduct the cost of that asset in the year of purchase.

What happens if you live in the property before renting it out?

While it may be appealing to use new the property yourself before opening it to tenants, it's important to understand the tax implications of doing so.

Living in the property, even for a very short time, affects what you can claim over the lifetime of the investment. All plant and equipment items will be classed as previously used, and therefore not eligible for depreciation. You won't be able to claim any other deductions for expenses such as interest repayment or insurance for this time, either.

Get a tax depreciation schedule completed sooner rather than later

It's recommended that you have a tax depreciation schedule completed as soon as your investment property is built and genuinely available for rent.

This will mean that you can start claiming depreciation sooner. Even if the property is only available for part of the financial year, you can still claim depreciation through partial year deductions.

BMT Tax Depreciation has been the specialist in the industry for over twenty years and has completed more than 700,000 tax depreciation schedules for all types of investment properties, Australia wide.

To learn more about depreciation or get an obligation-free estimate of likely depreciation deductions for your investment property, contact BMT on 1300 728 726 or Request a Quote.

BMT Tax Depreciation is Australia's leading supplier of residential and commercial tax depreciation schedules.

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