

Property Management Focus

Bringing you the latest news, facts and figures from the world of Australian real estate.

Earn more from your holiday rental



Before making a decision to dive in and purchase an investment property, investors should seek advice from relevant professionals such as a property manager, an accountant, a financial advisor and a quantity surveyor.

One common mistake holiday rental property owners make is to assume that because they are personally using the property, depreciation cannot be claimed. This can lead many investors to miss out on thousands of dollars in lost deductions annually. A specialist quantity surveyor can provide a tax depreciation schedule which is based on the portion of a year a property is available for rent, so it is best to seek advice on what deductions can be claimed before making any purchase decisions.

ENSURE YOU CLAIM DEPRECIATION DEDUCTIONS FOR BOTH THE BUILDING AND FURNITURE

The additional cash flow received by claiming depreciation deductions can often make the

difference as to whether a holiday rental is a negative cash flow asset or a positively geared investment.

A specialist Quantity Surveyor has the expert knowledge to calculate construction costs for the purposes of depreciation. They will perform a site inspection of the property and prepare a depreciation schedule which outlines all the deductions available including capital works deductions (for the building structure and fixed assets) and the depreciation of plant and equipment items (removable fixtures and fittings such as carpets, blinds, hot water systems and light fittings).

A specialist Quantity Surveyor will find the depreciable value of all assets within your holiday house. These items can add thousands in extra deductions over the first couple of years alone.

HOLIDAY HOUSE CASE STUDY

In the example below, an investor purchased a fully furnished property valued at \$460,000 for use as a holiday home. The owner rented the property to holiday makers for twenty four weeks (168 days) of the year for an average return of \$1,100 per week. For six weeks of the year they chose to use the property for personal use. During the rest of the year, the property was untenanted. This resulted in a total income of \$26,400 per annum. Expenses such as interest,

rates and management fees totalled to \$28,000.

The client was able to claim losses on a pro-rata basis for the time the property was being rented out during the first full financial year, leaving a total claimable amount of \$12,887*. They were left with a positive cash position on paper of \$13,513. By law, the client is required to pay tax on any income earned. However, by enlisting a specialist Quantity Surveyor and claiming depreciation, this client could reduce their tax bill by an amount of \$1,959 for the year.

This investor was able to reduce their out of pocket expenses from \$127 per week, down to \$89 per week. A saving of \$38 weekly, even though the property was only producing income for twenty four weeks of the year.

If you're considering purchasing a holiday rental or if you own a holiday home that is earning an income but do not currently claim depreciation, contact a specialist Quantity Surveyor for a free over the phone assessment of the depreciation deductions which may be available.

Article provided by BMT Tax Depreciation. Bradley Beer (B. Con. Mgt, AAIQS, MRICS, AVAA) is the Chief Executive Officer of BMT Tax Depreciation. Please contact 1300 728 726 or visit www.bmtqs.com.au for an Australia-wide service.

Scenario one - without a depreciation claim including pro-rata expenses			
Taxable income position		Out of pocket cash flow	
Income	\$26,400	Income	\$26,400
Less pro-rata expenses (\$28,000 x 168/365)	\$12,887	Less actual expenses	\$28,000
Taxable income	\$13,513	Less tax payable (taxable income x 37%)	\$5,000
		Original loss + tax payable	\$6,600
		Weekly out of pocket expenses after tax \$127	

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Scenario two - including a typical \$11,500 depreciation claim			
Taxable income position		Out of pocket cash flow	
Income	\$26,400	Income	\$26,400
Less pro-rata expenses (\$28,000 x 168/365)	\$12,887	Less actual expenses	\$28,000
Less pro-rata depreciation (\$11,500 x 168/365)	\$5,293	Less tax payable (taxable income x 37%)	\$3,041
Taxable income	\$8,220	Original loss + tax payable	\$4,641
		Weekly out of pocket expenses after tax \$89	

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The depreciation deductions in this case study have been calculated using the diminishing value method of depreciation and have been based on the pro-rata income and expenses the owner incurred during the first full financial year of ownership for the period the property was available for rent.

**Pro-rata calculation*
 $\$28,000 \times 168/365 = \$12,887$

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**Pro-rata calculation*
 $\$28,000 \times 168/365 = \$12,887$



Smart property investors use BMT Tax Depreciation

Claiming depreciation on your investment property can significantly improve your cash flow and reduce your taxable income.

Visit bmtqs.com.au or call us on 1300 728 726 to find out more.

BMT Tax Depreciation
QUANTITY SURVEYORS



Make Your Bid Successful

As we're in the midst of the busy summer selling season, it is timely to offer some tips about bidding at auction. CEO Harcourts Australia, Marcus Williams says it's best to be fully prepared to bid and buy on auction day. Contracts are always on display at the auction and are generally available from day one of the campaign. Mr Williams advises that you check them and ask questions or have your solicitor proof them for you.

An owner of a property will sometimes sell prior to auction if a satisfactory offer is presented. To avoid disappointment, register your interest early if you wish to be informed if an offer is presented on the property, giving you a chance to counter-offer. As part of their commitment to their clients and customers, Harcourts sales consultants are required to ensure that all interested parties have an equal opportunity to purchase the homes Harcourts are marketing, so it is important that you make the sales consultant aware of your interest at your earliest convenience.

Mr Williams offers the following tips for bidding at an auction:

ARRANGE FINANCE

A sale by auction is an unconditional sale (cash sale) so it is vital that you have finance confirmed before you bid. Harcourts offers a free service through Harcourts Complete. You can speak to sales consultant about a no-cost, obligation-free chat with an accredited and independent mortgage broker.

INSPECT THE PROPERTY AS OFTEN AS YOU LIKE

There are usually one or two open homes during each week leading up to the auction day and you can arrange to come back by appointment if necessary.

UNCONDITIONAL BY NATURE

A property being sold at auction is an unconditional sale. This means there is no cooling off period. If you purchase at auction, there is no provision for you to cancel the agreement. It is binding on both parties. Usually a 10% deposit is payable upon the signing of the contracts unless a lesser amount is negotiated prior to sale day.

BEFORE THE BIDDING BEGINS...

All bidders must register well in advance to the start of the auction. The auctioneer will not accept your bid unless you have registered and have received a 'bidders number'. Usually your driver's licence or passport is sufficient identification to register.

Position yourself so the auctioneer can see you clearly. Also, be sure to identify yourself to the sales consultant. You might feel more comfortable having a family member, friend or sales consultant call your bid for you. Anyone bidding on your behalf must have supplied a written authority to the agent or auctioneer prior to the sale commencing. The auctioneer may ask to see your 'bidders card number' during the bidding process.

It's important that you bid on the property from the outset rather than trying to employ tactics like waiting for the auctioneer to put the property on the market; a strategy that has been heavily promoted in some media circles but often ends in tears when parties using it get their timing wrong. The auctioneer is not obliged to announce the property is on the market or that the reserve price has been met. We recommend you ensure the auctioneer is aware of your interest as early as possible. This approach will also help you get into the pace of the auction in a controlled manner allowing you to make rational decisions rather than placing yourself under unnecessary pressure when the property is about to be sold.

Remember, if you're not there to bid, or have someone bidding on your behalf, you are seriously restricting your opportunity to buy! The property is sold subject to a reserve price and the vendor has the right to one vendor bid on the property. This bid will be clearly announced by the auctioneer.

PASSED IN

In the event the property fails to reach the vendor's reserve price and is passed in, the highest bidder may be given the first 'right of refusal' to buy the property at the vendor's reserve price. If the highest bidder decides to act on this right, based on a negotiation with the vendor, the property will be sold without referral to any other party. If they decline this opportunity, it is normal for all other interested parties to be offered the opportunity to submit offers. If your one of the 'under-bidders' it's recommended that you delay your departure from the auction until you are certain the property has been sold. Auction conditions will apply to a successfully negotiated sale price up until midnight on the day of the auction.

SETTLEMENT DATE

The settlement date is usually nominated in the 'conditions of sale' as a particular number of days after the date of the contract, for example 35 days. This date of settlement is enforceable and if you have concerns about it, you should notify your sales representative well before the auction commences.



If you are considering purchasing a property at auction, attend one or two auctions beforehand to become comfortable with the terminology and format so by the time your desired property comes to auction, you're ready to bid.

Auction is a great method to buy and sell and we wish all parties the best of luck in the process. Consult with your Harcourts sales consultant for any clarification or assistance.

Are you getting the most from your investment property?

Why not check with a free, no obligation property management appraisal?

For all the details and more, visit www.harcourtscomplete.com.au

