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Property Management Focus

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

How to keep moving up the property ladder

There's a lot of focus on first home buyers, with Government incentives designed to help save a deposit and get a foot onto the property ladder. Second-steppers – those who already own a home and are looking to upsize or upgrade – are sometimes overlooked. If you're one of the second-steppers trying to move up the property ladder, here are a few ways to do that.

USE THE EQUITY IN YOUR HOME

Most people assume that once you own a property, it's easy enough to keep moving up the property ladder. That's not always the case, but there are a few strategies that can help you climb a little quicker.

As a second-stepper, you're already in a much healthier financial position as you don't have to work nearly as hard to build up a deposit when considering buying your next home. If your current home has risen in value thanks to rising property prices in your area, you may already have enough equity to cover your deposit. What's more, having already established a good borrowing record, securing finance for your next home is that much easier.

If you don't have enough equity in your existing home, you'll need to boost this with savings which means you may have to put your moving plans on hold until you've built up a sizeable savings fund or you've paid a little more into your existing mortgage.

LOOK FOR A DEAL

One way to get keep moving up the property ladder is to look for a deal – a property that may need a little work but will ultimately bring in the bucks if you spend a little time and effort on it.

You could try buying on the outskirts of a desirable area where properties may be more affordable but likely to increase in value over time, or buy "the worst house in the best street" and renovate or refresh to bring it up to standard. Sometimes just modernising a kitchen or bathroom, a decent paint job or a garden clear out can improve value and help build equity, so try to look beyond the imperfections.

REFINANCE YOUR HOME LOAN

If you are thinking about moving up the property ladder, it's a good time to review your existing home loan and think about refinancing. You should also compare your existing home loan with any new deals on the market as there could be an opportunity for improvement.

Working with a professional mortgage broker from the start can help set you up with the right home loan to maximise your investment. Talk to a Mortgage Express broker about arranging your finances to ensure you're getting the best deal possible.

Do depreciation deductions apply to you?

Owners of income producing properties are eligible to claim tax deductions for a number of expenses involved in holding a property.

Most investors are aware of some of the deductions they are entitled to; for example, they know they can claim their Property Manager's fees, council rates and any repairs and maintenance costs. However, all too often investors are unaware of property depreciation and as such they frequently miss out on the valuable returns these deductions can provide them with when they complete their annual income tax returns.

To help investors maximise the deductions they can claim from an investment property, let's look at some key points to help you understand depreciation.

WHAT IS DEPRECIATION?

Over time, any building and the assets contained within it will experience wear and tear. Legislation allows the owners of any income producing property to claim this wear and tear as a tax deduction called depreciation. Unlike other expenses involved in holding a property, such as repairs and maintenance for instance, an investor does not need to spend any money to be eligible to claim it. For this reason, depreciation is often described as a non-cash deduction.

TYPES OF DEPRECIATION DEDUCTIONS AVAILABLE

The Australian Taxation Office (ATO) clearly defines two types of depreciation allowances available for property investors:

- Division 43 capital works allowance
- Division 40 plant and equipment depreciation*

The capital works allowance refers to what an investor can claim for the wear and tear that occurs to the structure of the property. This includes any structural improvements that may have been made during a renovation.

As a general rule, any residential building where construction commenced after the 15th of September 1987 will entitle their owner to capital works deductions at a rate of 2.5 per cent per year for up to forty years.

Owners of older buildings constructed prior to 1987 should still find out what deductions are available, as often these buildings will have undergone some form of renovation which can result in capital works deductions for the owner.

Plant and equipment depreciation* on the other hand, refers to the deductions an investor can claim for the wear and tear that occurs to the easily removable fixtures and fittings found within the property.

There are more than 6,000 different assets recognised by the ATO which an investor can claim depreciation deductions for. Some examples include the carpets, blinds, air conditioners, hot water systems, smoke alarms and ceiling fans.

Unlike structural items, no date restrictions apply when claiming depreciation on plant and equipment assets. Each of the assets is assigned an individual effective life and depreciation rate by which depreciation should be calculated.

**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.*

WHO SHOULD YOU CONTACT TO CALCULATE AND MAXIMISE YOUR DEDUCTIONS?

Often an investor will make the mistake of thinking their Accountant will claim all of the deductions available in their investment property. When it comes to depreciation, however, it is important to consult an expert in this area.

Legislation recognises Quantity Surveyors as being one of a few select professionals with the knowledge necessary to estimate construction costs for depreciation purposes.

A specialist Quantity Surveyor will use their skills to provide a depreciation schedule that outlines the deductions an investor can claim for any specific property at the end of each financial year. An Accountant will then use the figures outlined in the depreciation schedule when submitting the investor's individual income tax return at the end of financial year.

HOW WILL DEPRECIATION HELP AN INVESTOR?

The additional funds an investor receives by claiming depreciation can have a significant impact on their available cash flow. On average, an investor can claim between $5,000 and $10,000 in depreciation deductions in the first full financial year.

For obligation free advice on the deductions that are available for any investment property, contact the expert team at BMT Tax Depreciation on 1300 728 726.

Article provided by BMT Tax Depreciation.
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