Increasing cash flow for investors...

through property depreciation!

As a property ages, items within it wear and they depreciate in value. The Australian Taxation Office (ATO) allows property investors to claim a deduction relating to the expenses associated with this wear and tear on the building and its fixtures. Depreciation can be claimed by any owner of an income producing property. This deduction essentially reduces the investment property owner's taxable income, thus increasing the cash flow of the property.

The depreciation benefit will vary depending on several factors:

- A building's age - Generally newer buildings will provide higher depreciation potential than older properties due to the higher embedded value.
- The type of property – If the property forms part of a strata complex or community title development it will affect the amount of depreciation the property will attract. The larger area of common property within and around the building is likely to increase the depreciation claim.
- Amount of plant and equipment items – A greater amount of plant and equipment, including items that can be easily removed from the property such as blinds and carpets, can lead to a higher depreciation benefit to the investor.

In the example shown below, by simply obtaining a tax depreciation report, the investor is able to decrease their weekly cash outlay from $117 to only $36! Claiming the property depreciation also increases the annual cash flow of the property by $4,255.

Quantity surveyors are one of the few professionals recognised by the ATO to have the appropriate qualifications to prepare a depreciation report to substantiate deductions for depreciation. It is recommended that investors enlist specialised quantity surveyors for their property depreciation needs.

Please call the office for a recommended quantity surveyor to maximise the depreciation deductions on your investment or proposed investment property. Specialised quantity surveyors will provide investors with a report that lasts the life of the property and ensures depreciation deductions are maximised.

Example

The following example is based on a new two bedroom unit with a purchase price of $400,000 being rented for $390 per week. Let's have a look at how claiming depreciation on the unit affects the weekly cash flow for the owner.

1. Income

Rent per week	$390
Number of weeks	52
Annual income [A]	$20,280

2. Expenses

Estimate including interest rates and management fees	
Total expenses [B]	$30,000

Scenario 1

No depreciation claim

Pre-tax cash flow

Cash loss [A - B] (income - expenses)	$9,720
Outlay per week (cash loss/52 weeks)	$187

Post-tax cash flow

Tax rate assessment	37%
Tax refund	$3,596
Net cash outlay (loss + refund)	$6,124
Outlay per week (tax loss/ 52 weeks)	$117

Scenario 2

With depreciation claim

Pre-tax loss

Tax depreciation	$11,500
Cash loss [A - B] (taxation loss)	$9,720
Total deduction	$21,220

Post-tax cash flow

Tax rate	37%
Tax refund	$7,851
Net cash outlay (cash loss + refund)	$1,869
Outlay per week	$36

Total difference: $81 per week

Call the office to find out how you could be claiming your entitlements through your pay cycle NOW instead of waiting until the end of NEXT financial year.