R&W

PROPERTY MANAGEMENT **NEWS**

AUGUST 2020

A BENEFIT WITH TAX DEDUCTIONS IN JOINT OWNERSHIP INVESTMENTS

BMT Quantity Surveyors has revealed a case study where additional deductions may be available with a split tax depreciation report if you own your investment property with another person. Based on each owner's percentage of ownership for an asset, a split depreciation report calculates depreciation deductions for each owner. This effectively increases what you can spend on upgrades while maximising your deductions.

How do split depreciation reports work?

In the case of an investment property with one owner, an immediate write-off can be claimed for assets worth $300 or less.

For investment properties with a 50:50 ownership share, each owner can claim immediate write-offs for assets worth $300 or less. This means the owners can now claim an instant write-off for items $600 or less in total value. This increases the number of assets that investors can claim as an immediate write-off and provides additional opportunities to make small improvements to your investment.

How do the numbers stack up?

As outlined in BMT Quantity Surveyors' case study, a 50:50 tax depreciation split is an excellent solution for purchases such as a new rangehood. For example, if two people who each have a 50% stake in an investment property purchase a new range hood for $500, they can each claim $250. This amount can be written off in the first year as it is below the $300 threshold.

Are there other benefits to 50:50 depreciation splits?

The 50:50 depreciation split method is also applicable to low-value pooling. In low-value pooling, if an owner's interest in an asset is $1,000 or less, these items qualify which allows the items to be claimed at an increased depreciation rate of 18.75% in the first year and 37.5% from the second year onwards.

Using a new oven as an example, we can see how the numbers stack up. If the oven cost $1,750 and the cost is shared evenly between the owners, it will cost $875 for each person. As each person's contribution for the oven is below $1,000, it qualifies for low-value pooling allowing an 18.75% deduction in the first year and a 37.5% deduction from the second year onwards. Without an increased depreciation rate, investors would only be allowed to claim an annual depreciation rate of 16.67% as outlined in BMT's case study.

EACH OWNER CAN CLAIM WRITE-OFFS FOR ASSETS WORTH $300 OR LESS

The guidelines around depreciation and tax deductions for investment properties are constantly changing, so make sure you speak to your accountant to double-check exactly what you can claim before making any big purchases.

We have provided you the financial year statement 2019/2020. To maximize the value of your investment, please discuss with your accountant.

Please stay healthy and safe.

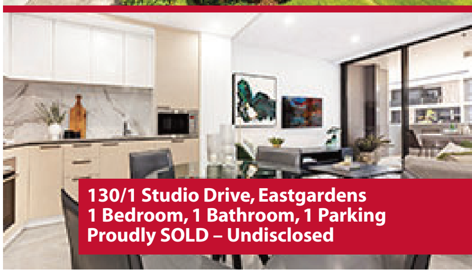
Hendra Wijaya
Principal

RECENT RENTALS

70 Arundel Street, Glebe		
4 Beds 1 Baths 1 Parking		$925 pw
1608/188 Day Street, Sydney		
2 Beds 2 Baths - Parking		$690 pw
28/172 Maroubra Road, Maroubra		
2 Beds 2 Baths 1 Parking		$600 pw

RECENT SALES

209/140 Maroubra Rd, Maroubra
1 Bedroom + Study, 1 Bathroom
Proudly SOLD for $650,000



130/1 Studio Drive, Eastgardens
1 Bedroom, 1 Bathroom, 1 Parking
Proudly SOLD – Undisclosed

894 Anzac Parade, Maroubra NSW 2035
info@rwmaroubra.com.au | **www.rwmaroubra.com.au**

How much do you need to budget for?

Our research indicates that you should allow in the vicinity of 20% of your annual yield to cover your regular statutory costs (excluding land tax) and / or strata levies as well as any minor incidental repairs and maintenance expenses that could arise throughout a year.

Of course this will vary depending on the age and condition of the property. Remember, tenants are not expected to tolerate the minor annoyances that a homeowner might "just put up with".
If you have recently purchased an older investment property that has never been rented before, you might find that you will receive an initial surge of repair and maintenance requests. But don't worry, this will eventually settle down. As hard as you might try to prepare a property for your tenants, it's important to accept that some things can only be experienced when living in a property.

While 20+ % of your gross annual yield may sound like a lot, as far as a business goes (and that's precisely what your investment property should be treated as), it's actually not bad at all! The key to success is not to allow yourself to be caught short. Schedule a meeting with your Property Manager to see how they can help you budget for your known expenses and help to ensure a positive experience for you, your Property Manager and your tenant.

YOUR OPTIONS WHEN CREATING A STRUCTURE FOR YOUR PROPERTY

INCOME WILL BE TAXED AT 27.5 PER CENT FOR SMALL COMPANIES

In Australia, over 65 per cent of buyers purchase their property in their own name. But other ownership structures may be suitable for you, depending on your intentions with the property investments and how it fits into your wider portfolio. Below, we outline a few different property ownership structures and when each structure may be suitable.

Individual

The simplest ownership structure for a property is owning the asset as an individual. This means you buy the property in your name. For a property that is your main residence, buying it in your name can be beneficial as you'll be eligible for the capital gains tax exemption. Getting finance for a property purchased in your name is also straightforward as you can use payslips and tax returns as your proof of income. On the downside, buying a property in your name doesn't offer asset protection if you are personally sued.

Company

A company structure is a good option for property developers or full-time property investors. As a separate legal entity, the company is run by the appointed directors and owned by shareholders. Under this structure, the property and mortgage would be under the company name. Income will be taxed at 27.5 per cent for small companies with turnover below $50 million.

You get increased asset protection under a company structure, but you don't have access to the capital gains tax discount. If you don't intend to hold your properties for a long time, a company structure may not be worth the time and cost to establish and maintain.

Trusts

Trusts are a popular option amongst property investors. The most common trusts used by property investors are a family trust or a unit trust. Similar to a company structure, a unit trust gives you a defined interest in the trust, so your profit from the property will be the same as your ownership within the trust. Unit trusts can be a good option for unrelated parties investing in property.

A family trust differs slightly. It doesn't have defined unit holders, providing flexibility and asset protection. The complexity of your trust structure may impact how much you can borrow, so you need to speak to your accountant about this when you apply for finance.

Joint venture

If you have an end date for your property investment, a joint venture can be a good option. This is a more common structure for developments as in a joint venture the parties share in the proceeds, not just the profit. For example, each party may own adjacent blocks of land, and the proceeds will be the property that is built on the land.

This article is for general information purposes only. There's no one size fits all when it comes to property ownership structures. Make sure you speak to your accountant for tailored advice about structuring your property investments and how different ownership structures affect your tax obligations.