R&W

PROPERTY MANAGEMENT **NEWS**

APRIL 2021

Depreciation Schedules explained

As we head into the last quarter of the financial year, we spotlight an area of taxation that is often overlooked when it comes to the deductions you make; depreciation. It's very easy to do given it is a non-cash deduction. In the first financial year, on average, investors can expect to claim around $9,000 in depreciation deductions.

Depreciation comes in two forms — capital works and plant and equipment assets. We've outlined here what you should keep in mind to ensure you maximise your deductions each financial year.

Capital works

Wear and tear to the structure of your property, along with items that are repaired, such as roof, walls, doors, and cupboards can be claimed as a capital works deduction. This type of deduction can be claimed on properties that were built after 15 September 1987. The deduction rate of capital works is 2.5 per cent each year for forty years. For properties built before 15 September 1987, it's worth checking if your property has undergone any renovations as these may be eligible for capital works deductions.

Plant and equipment assets

Fixtures and fittings that can be removed easily from your property are classified as plant and equipment assets. These assets may include carpet, blinds, hot water systems, air-conditioners, and smoke alarm systems. The Australian Taxation Office sets the effective life of such items, and your depreciation deductions will be based on the ATO's calculations.

Depreciation regulations

It's important to remember that, under legislation passed on November 2017, owners of established residential properties purchased after 9 May 2017 can't claim deductions on plant and equipment assets that have been previously used. Investors can still claim depreciation on brand new plant and equipment assets once it's producing an income. This means the property needs to be leased for you to claim depreciation for new plant and equipment assets.

Renovating and depreciation

If you renovate your rental property, you should consider having a tax depreciation schedule prepared. Further, you can claim depreciation for entitlements you haven't yet used on any eligible assets in the year these are removed. Remember, if you live in the property while it's renovated, you won't be able to claim a depreciation deduction for any plant and equipment installed while you're in the property.

Make sure your property is listed for rent or already leased before you purchase and install any new plant and equipment assets.

Talk to your accountant

Getting a tax depreciation schedule prepared could provide you with thousands of dollars' worth of deductions.

Richardson & Wrench Maroubra wishes you a renewal of hope, health, love and peace. Happy Easter to you and your lovely family.

Hendra Wijaya
Principal

RECENT RENTALS

180/116 Maroubra Road, Maroubra
3 Bed 2 Bath 2 Parking $800 pw

A21/495 – 503 Bunnerong Road, Matraville
2 Bed 2 Bath 1 Parking $600 pw

2309/18 Park Lane, Chippendale
1 Bed 1 Bath 1 Parking $580 pw

RECENT SALES

310/104-112 Maroubra Rd, Maroubra
2 Bed, 2 Bath, 1 Parking
Price: Undisclosed

2/32-36 Maroubra Rd, Maroubra
2 Bed, 1 Bath, 1 Parking
Price: Undisclosed

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

TAX IMPLICATIONS OF REFINANCING AN INVESTMENT PROPERTY

The good news is, when refinancing an investment property, the costs involved in setting up a loan, and exiting it, are generally tax deductible.

There are two main areas of tax deductions that can be claimed when you are refinancing your investment property;

1 – the start-up borrowing costs including loan application fees, legal fees, lenders mortgage insurance, stamp duty and loan registration costs

2 – the exit fees and penalties.

However, it's important to note that you may not receive the refund for these costs immediately. You'll need to budget as this money could take a long time to be returned to you.

These borrowing costs can be claimed on tax, incrementally, over the first five years of property ownership. But if you sell or refinance the property within that time period, you should be able to claim the remaining tax deductions straight away.

TENANTS ARE ONLY HUMAN AND ACCIDENTS DO HAPPEN

SHOULD LANDLORDS TAKE OUT PUBLIC LIABILITY INSURANCE?

Owning an investment property is an exciting and rewarding experience and in most cases tenants look after the property, pay their rent on time, and reside safely and comfortably in your property.

However it's not always smooth sailing. Like you, tenants are only human and accidents do happen, so protecting yourself against liability should be on the top of your mind.

Compliance and liability are key focal points for those who own an investment property. Your property manager will always advise you on the obvious ones like smoke alarm regulations, blind cord compliance and pool compliance. Ensuring compliance in these areas will help reduce your exposure to risk and make owning an investment property far less stressful for you. But what if you were faced with an event that is beyond your control?

Imagine the following scenario - summer has peaked and the weather has been hot and humid. Your tenant buys a blow up pool from Big W and sets it up in the backyard without informing you or the property manager about it. Pool regulations stipulate that any body of water over 30cm must have a compliant pool fence enclosing it. If someone was to be injured or worse in that pool, it could be viewed as your responsibility as the property owner due to non-compliance. As a result, you could find yourself caught up in a liability lawsuit.

Other examples of potential mishaps in and around the property include, a tenant slipping over on a wet tiled area, falling down the stairs, tripping on frayed carpet, or being electrocuted by an appliance or faulty light switch.

Your property manager will always work diligently to reduce your risk of exposure to potential mishaps, however things inevitably wear or break in a property eventually. Alternatively, a chain of unusual events could lead to an accident occurring. It is crucial that you understand that as the landlord, YOU could find yourself embroiled in a liability claim should the tenant or a guest at the property you own be injured.

The good news is you can protect yourself against such things happening. If you are unsure how to protect yourself against a liability claim, contact your property manager who will point you in the right direction. We really can't stress strongly enough how important this is.