INVESTMENT PROPERTIES

Renovating an investment property

When renovating an investment property, it is important to keep in mind the taxation deductions available such as depreciation and capital works deductions.

Investors seeking to renovate property that is used for income-producing purposes need to be aware of the tax-deductible expenses that can be claimed as a deduction, either immediately or over several years. Both negatively and positively geared properties can benefit from these deductions.

Depreciation is one such deductible expense that can be claimed over several years and is a critical factor to consider before embarking on renovation plans. Depreciating assets, also known as plant and equipment include items such as the oven, dishwasher, dryer and so forth.

Capital works is another expense that can receive deductions. Capital works refers to construction costs of buildings, extensions, alterations or structural improvements such as a carport, gazebo or retaining wall. Therefore, renovations are classified as capital works in the ATO's terms.

It is worthwhile to use a quantity surveyor who can calculate a tax depreciation schedule for your property. A pre-renovation inspection can identify what existing items have value before you throw them away. This is referred to as a residual value write-off deduction, also known as scrapping.

Scrapping allows for deductions on depreciating assets such as carpet, furniture and appliances that may be obsolete. It is important to note that the items are only available for deduction if they were income producing before being taken out and if the property will be income-producing after the renovations. Property investors can claim capital works in addition to the residual write off deduction on the disposed item.

It is also suggested to get a depreciation schedule on the new assets after renovations are completed. Hiring a quantity surveyor can account for a large amount of savings when claiming your tax return. Also, it can help to prevent overcapitalisation of your property as the property's value might have changed from the purchase date, hence influencing your renovation budget.

It is important to note the difference between a repair and a renovation. A common mistake that can arise is to claim initial repairs as immediate deductions. Making repairs straight or recently after purchasing a property will be considered as capital works due to the deterioration of the property before your ownership. Also, you cannot claim the cost of repairs before renting out the property, as they relate to the period before the property was income-producing.

When embarking on renovations make sure good record-keeping measures take place, as renovation costs may need to be claimed as expenses. The costs will add to the cost base of your property, and when the cost base is high, the capital gains tax (CGT) will be reduced, resulting in higher returns.

Overall, it may be in an investor's best interest to use a quantity surveyor to create a tax depreciation schedule and to understand the deductions available before renovating your investment property to maximise returns.

Useful check for claiming your entitled deductions

MOTOR VEHICLE CHECKLIST

Are you claiming all you're entitled to? RAA Membership, Parking, Car Insurance? Use this motor vehicle checklist as a guide to help maximise your vehicle related tax deductions.

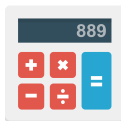
DOWNLOAD CHECKLIST (/BITBUCKET/MJN/IMAGES/CHECKLISTS/MOTOR-VEHICLE-CHECKLIST.PDF)

RENTAL PROPERTY CHECKLIST

Investment properties incur a number of expenses. Strata fees, insurance, interest and any repairs or maintenance just to name a few. Use this checklis to assist claiming all that you're entitled to.

DOWNLOAD CHECKLIST (/BITBUCKET/MJN/IMAGES/CHECKLISTS/RENTAL-PROPERTY-CHECKLIST.PDF)

INDIVIDUAL TAX RETURN CHECKLIST



At the end of the financial year it can be a daunting tasks preparing your Individual Tax Return for lodgement. Use this checklist to assist with collecting all the information you'll need.

DOWNLOAD CHECKLIST (/BITBUCKET/MJN/IMAGES/C INDIVIDUAL-TAX-RETURN-CHECKLIST.PDF)

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