Real Estate Works

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PROPERTY INVESTOR NEWSLETTER **JUNE - JULY 2013**

This newsletter has been designed to keep you updated on what is happening within the industry and our real estate office

HELPING YOU UNDERSTAND THE VALUE OF DEPRECIATION

TO AN INVESTOR FROM AN INVESTOR

FROM OUR PROPERTY MANAGEMENT TEAM

END OF FINANCIAL YEAR IS HERE

This is a courtesy note to advise our landlords that we will be processing complimentary end of year financial statements that summarise your income and expenditure for the investment property. This statement should be retained and given to your tax accountant.

If you have any questions regarding this statement, please feel welcome to contact our office.

It is important to take the time to itemise all of your expenses relating to your property to maximise your return and minimise your tax payable.

Wishing you a prosperous Financial New Year

Depreciation: Definition – "*A noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence.* "

Over the past few years the number of people we meet who understand the "ins and outs" of depreciation has increased but we still occasionally strike people who are not taking full advantage of what The Australian Tax office have to offer.

In my 2011/2012 tax year I claimed $42,000 in depreciation across my portfolio of property. That means it's a $42,000 loss that the tax office accept which was a "non cash deduction" – meaning I did not spend $42k in cash. I am sure you can appreciate what taking $42k of off your taxable income in a year can mean.

That's before I claim interest and all the other property related expenses as deductions. For me it means I pay no income tax and have not done so for a few years now.

Depreciation of residential property is in two forms - Capital Allowance - This deduction is based on the historical construction costs of the property which may include surveying, engineering, architectural and building costs.

For residential property the property has to be built after 18 July 1985 and commercial properties July 1982. The rate of depreciation is fixed over either 25 or 40 years determined by criteria set by ATO legislation.

Plant and Equipment - *Regardless of age,* all properties contain some form of claimable depreciation such as depreciable assets, *which is re-valued and given a new effective life from the date of settlement.*

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These items (such as carpets, cook top, ovens, air conditioner, window blinds or curtains, dishwasher, dryer and hot water system) are depreciated at a higher rate than that applied to the building depreciation. Assets included in this class are predefined by ATO legislation and the rate of depreciation is determined by the Commissioner of Taxation. The rate of depreciation reflects the Commissioners interpretation on the effective life of the asset to produce assessable income.

Many people I speak to about depreciation say "but it's an older property so there is none" and that's wrong in that the plant and equipment is still depreciable. Certainly a newer property will give you much higher levels of depreciation and that one of the main reasons I have generally purchase new or near new property however there is still money to be claimed from older properties as well.

Those of you who know me know that I would never "push the envelope" with the tax office. The ATO are my "friends" and without them I would not be holding 12 properties. However , that being said, they will never tell you that you have not claimed all you can. You have to know what's legitimate and what's not and we cannot all be experts in all things. According to the ATO 52% of all property investors don't claim all of their legitimate deductions.

The only way to do this, in my opinion, is to have a depreciation schedule prepared by a good quantity surveyor. The schedule will list all allowable buildings, plant and equipment, their value and the depreciation allowance that can be claimed. With this information your accountant or tax agent can ensure you are getting the maximum tax benefits.

The good news is if you haven't been claiming all of your depreciation entitlements over the years then don't worry, all is not lost. As an investor you can actually reclaim any missed depreciation benefits by amending previous tax returns back as far as 2 years.

**Please note - I am not an accountant or financial advisor. My comment above are purely from my own experiences in building a property portfolio and you should consult a professional if you are in doubt.*

- Martin, Investor

BLOCKED DRAINS AND GUTTERS

We are often asked by landlords the question "Who is responsible for blocked drains and gutters at the property?"

It is the responsibility of the landlord/agent to ensure that the property is in good condition.

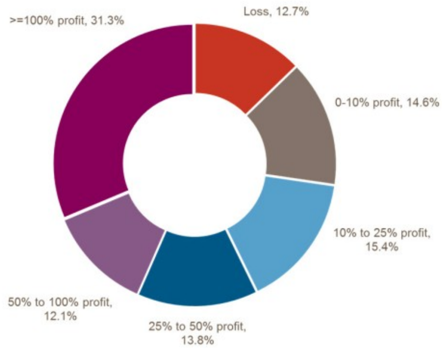
Generally, if a drain or gutter becomes blocked due to fair wear and tear (e.g. due to tree roots blocking a drain), it is the landlord's/agent's responsibility to deal with the repair.

If a drain becomes blocked due to something the tenant has done (e.g. putting something in the drain), it may be the tenant's responsibility to pay for fixing the problem.

87.3% OF HOMES SELL AT A PROFIT OVER THE MARCH QUARTER

RP Data's latest 'Pain and Gain' Report for the March quarter of 2013 shows 12.7% of all March quarter re-sales transacted at a loss while the vast majority turned a profit.

Pain/Gain results for house and unit re-sales over March quarter 2013



Over the first quarter of 2013 RP Data recorded 58,677 residential property re-sales nationally, of these 12.7% recorded a gross loss from the original purchase price. The gross value of the losses associated with these loss making re-sales totalled $463.9 million.

Conversely, 87.3% of all March quarter re-sales recorded a gross profit relative to their original purchase price. The gross profit from these re-sales equated to $9.6 billion.

- Excerpt from RP Data, Tim Lawless

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