DEPRECIATION with Tyron Hyde

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WHICH NAME BENEFITS YOU MOST?

To maximise depreciation , should you buy an investment property under your own name, company name or super? **Tyron Hyde** investigates…

Whilst the tax implications are a very important part of your property investment strategy, I would never make it the number one reason in determining the asset class in which to buy my property.

In response to the question, depreciation property reduces the taxable income in the entity that holds the property.

So the tax rate for that entity, when the rent is included in the equation, derives the depreciation benefit you gain.

DON'T LET DEPRECIATION DRIVE ALL THE FINANCIAL DECISIONS

EXAMPLE 1

Property in super fund name:
Washington Brown
Depreciation report calculates depreciation year one at $10,000
Maximum tax benefit to you is $10,000 × 15 per cent = $1,500

EXAMPLE 2

Property in personal/trust name:
Washington Brown
Depreciation report calculates depreciation year one at $10,000
Maximum tax benefit to you is $10,000 × 45 per cent = $4,500 (If you're on the highest marginal tax rate)

EXAMPLE 3

Property in personal/trust name:
Washington Brown
Depreciation report calculates depreciation year one at $10,000
Minimum tax benefit to you is $10,000 × 0 per cent = $0 (Maximum tax rate 0 per cent)

EXAMPLE 4

Property in company name:
Washington Brown
Depreciation report calculates depreciation year one at $10,000
Maximum tax benefit to you is $10,000 × 30 per cent = $3,000 (Flat tax rate 30 per cent)

Important points to note from the above:

- I have grouped the personal and trust entities together. That's because a person is normally a beneficiary of the trust and therefore the same tax scales apply to both entities.
- If the only income you receive is the rent on a property, and that rent keeps you in the minimum threshold, then the depreciation benefit is nil.
- If the property is in a trust and is negatively geared, then the depreciation will increase those losses. But losses in a trust cannot be distributed, so they are quarantined in the trust until they can be offset by other revenue.

This is an important note to consider when buying property in a trust, as the income received through rent cannot be added to your personal income.

- The super fund has the lowest tax rate affecting your depreciation. This is a good thing, as all income is only taxed at the maximum rate of 15 per cent.

I would always buy property based upon the underlying investment grade of the property. I have seen too many people buy based upon tax-driven incentives, and they lose money by making this a preoccupation.

"I WOULD ALWAYS BUY PROPERTY BASED UPON THE UNDERLYING INVESTMENT GRADE"

Tyron Hyde is a director of quantity surveying firm Washington Brown. He has a degree in construction economics and is an associate of the Australian Institute of Quantity Surveyors.