MAXIMISING YOUR CASH FLOW

This month, **Tyron Hyde** begins a countdown of the top 10 depreciation tips for maximising cash flow

Claiming depreciation on your property is one of the most important steps in an investor's journey. And it's the only deduction that can be subjective. All other expenses, including interest and strata fees, must equal precisely the amount paid out. Here are the first five of my top 10 tips on making the most of depreciation:

10: QUANTITY SURVEYORS

The ATO has identified quantity surveyors as being appropriately qualified to estimate original construction costs where the figure is unknown. I suggest you engage a firm that has been around for at least 10 years. The ATO requires all companies who prepare Tax Depreciation Schedules to be registered tax agents.

9: BUILDING ALLOWANCE

Residential properties built between 18 July 1985 and 15 September 1987 attract a four per cent building depreciation rate over 25 years. Properties built since then attract a 2.5 per cent rate over 40 years. So, if you buy a property for which construction commenced between 1985 and 1987, the maximum claim on the building allowance will be until 15 September 2012. However, if you buy a property for which construction commenced, for example, in 1992, you still have 20 years' depreciation at 2.5 per cent.

8: FURNISH YOUR PROPERTY

Furnishing your property is another way to increase your depreciation deductions. For example, a $20,000 furniture package supplied by a developer can provide a $10,000 deduction in the first year alone. But remember, furnishing your investment isn't necessarily the best option for all properties and locations. It's suited to smaller one or two bedroom apartments in transient areas and holiday rentals.

7: RESIDUAL VALUE WRITE OFF

I believe investors will miss out on millions of dollars' worth of depreciation claims in coming years due to changes in the definition of 'plant and equipment'. When I first started preparing depreciation reports, there were several factors that determined what made the list. These included whether the item was absolutely necessary in order to make the property available to rent out. For instance, a kitchen is an absolute necessity; a microwave isn't. If you are renovating a kitchen or bathroom in a property built after 1985, get a quantity surveyor in before you demolish so they can assess the residual value of these items. That value can still be claimed as an outright deduction and can generate huge savings in the first year. For instance, a rental property with a 20 year-old $10,000 kitchen attracts an immediate deduction of around $5,000.

6: DIY DEPRECIATION

I am baffled by the companies offering a do-it-yourself option. I personally think there are some legal anomalies here, but – more important – I think you will be missing out on some major deductions. Here's one example: The DIY options on the market give you a tick sheet and ask you to take your own measurements. Now let's say you measure from one bedroom wall to the other. If you do that all around the house, you would reduce the property's gross area by 10 per cent. At approximately $1,500 per square metre to build, you would have missed out on something like $15,000 worth of tax deductions! ■

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