EXPERT
TYRON HYDE

■ DEPRECIATION

Be smart about your purchases to maximise perks

GETTY IMAGES

▶ RENOVATIONS

What do tax depreciation, scrapping and renovating all have in common? Well, they can all make you money!

I don't know about you but every time I see that sun coming towards spring I start thinking, "What can I fix up around the house – or who can I get to do it?" But before you get caught up in painting your cupboard a crisp lime green, or wondering whether your wallpaper should have a touch of yellow or orange, it is helpful to remember the exciting benefits you may get with depreciation.

After all, wouldn't renovating be more rewarding if you knew that part of your costs would come back to you through tax deductions?

How does it work?

When you renovate an investment property, you can claim particular expenses incurred. This includes the cost of that tile work you just did for your bathroom, or maybe that new edgy and urban kitchen sink. These things can actually get you a depreciation claim of 2.5%pa over a 40-year period.

Even upgrading your plant and equipment items such as appliances and furniture also qualify for depreciation. Talk about claiming a reward for rewarding yourself! Where else can you get that? Let's talk numbers – the table is a guide to how much depreciation can be claimed on a renovation:

Tips to get you excited about renovating

- Scrapping reports: If you buy a property and will renovate, it's worth calling in a quantity surveyor, such as Washington Brown, which will attribute values to the items about to be removed. This can add up to a substantial amount, especially if the property was built after September 1987. In order to do this, the property has to be income-producing before and after the renovation.
- Depreciation schedule: Once your hands are dirty and the renovation is completed, get a depreciation schedule for the new work. The depreciation process starts all over again!

1: HOW MUCH SPENT & CLAIM

YEAR	COST OF RENOVATION			
	$20,000	$50,000	$100,000	$200,000
1	$6500	$10,000	$15,000	$20,000
2	$3500	$6000	$9000	$12,500
3	$2500	$4500	$7000	$10,000
4	$2000	$3500	$6000	$8500
5	$1500	$3000	$5000	$7500

▶ OVERSEAS PROPERTIES

Fancy a villa in Tuscany? What about a condo in LA? More and more Australians have invested in property overseas – particularly as the Aussie dollar was on parity with the US dollar and some countries' economies have been much weaker than Australia's and have had a downturn in their property markets.

But can you still claim depreciation if your investment property is not in Australia? The answer is yes, you can depreciate an overseas investment property – but be careful about the few key differences.

The first relates to claiming the building allowance. With Australian properties you're entitled to claim 2.5%pa of these construction costs, as long as the property was built after September 1987. The rate for overseas properties is the same – but the date is different. Construction of an overseas property must have commenced after August 1990.

So if you want to maximise your deprecation benefits on an overseas property, look for a newer property built in the past decade or two.

Internal items of plant and equipment, such as carpets, ovens, lights and blinds, can also be depreciated as they would be in an Australian investment property. There is a useful publication you can download from the Australian Taxation Office (ATO) website, *Tax-smart Investing: What Australians Investing in Overseas Property Need to Know.*

The main barrier to depreciating an overseas property is working out the construction costs, along with the expense of flying a quantity surveyor overseas to prepare your depreciation report. Washington Brown has a number of affiliations around the world and we regularly inspect properties in London, New Zealand, the US and throughout Asia.

▶ WHEN SIZE MATTERS

High-rise living has been uncommon in Australia. Most people have preferred to live in single detached houses with front lawns and backyards. They just want space. But the Australian Bureau of Statistics (ABS) reports this trend is changing. Its records show that in recent decades the proportion of people living in high-rise dwellings has been increasing, compared with those living in houses.

This is interesting but not surprising. Washington Brown has seen and worked on some of the major high-rise residential projects in Sydney, Melbourne and Brisbane and the trend seems to be continuing. Big developers are constructing high rises to cater for the demand from those who prefer living in apartments.

High-rise blocks are often located close to employment, shops, restaurants and public amenities, and they offer a lifestyle attractive to a growing number of Australians, particularly young professionals and families.

From a depreciation point of view, taller buildings attract higher plant and equipment allowances. Plant and equipment not only refers to items within the property itself but also to the necessary services within the building.

Taller buildings require additional services: lifts for residents to access their apartments; intercoms to communicate with visitors; taller buildings also tend to have ducted air-conditioning, which is expensive; and, to comply with regulations, there will need to be fire-hose reels in common areas. These common areas, such as lobbies and walkways, are included as plant and equipment.

In tall buildings there are better amenities. Sometimes there is a swimming pool, a gym, even a mini-cinema. All these contribute to a higher ratio of plant and equipment. For example, an apartment in a high-rise building costing, say, $500,000 to buy might be eligible for $15,000 depreciation in year one. A house with a similar purchase price might yield about $12,000 in depreciation allowances.

The finishes in each dwelling would have an impact on these figures but, as ball park numbers, table 2 is a guide to the depreciation relevant to the dwelling type.

This doesn't necessarily mean that tall buildings make better investments. There will be a body corporate, sometimes an on-site manager, and you pay annual levies for these. Added to this are additional expenses associated with the upkeep of common areas and shared facilities, and you own less land as well. But, as with all facets of investment, it's up to you to weigh up the pros and cons and make that final decision.

▶ IMMEDIATE WRITE-OFF

A dollar today is worth more than a dollar tomorrow, so deduct items as quickly as possible. Individuals who buy items for under $300 can write them off provided they were used to produce assessable income. An important thing to remember here is that provided your share of the value, if an item is jointly owned, is under $300, you can write it off. For instance, say an electric motor to the garage door cost an apartment block $2000. If there are 50 units in the block, your portion is $40. You can claim that $40 outright as your portion is under $300.

2: TYPE OF HOME & CLAIM

YEAR	TYPE OF DWELLING		
	HOUSE	LOW RISE[1]	HIGH RISE[2]
1	$10,000	$12,000	$15,000
2	$7000	$8000	$10,000
3	$6000	$7000	$8000
4	$5000	$6000	$7000
5	$4500	$5000	$6000
Total[3]	$200,000	$220,000	$250,000

[1]Up to 4 storeys; [2]more than 4 storeys. [3]Over 40 years.

You can also try to buy items that depreciate faster. Items between $300 and $1000 fall into the low-value pool and attract a higher depreciation rate. So, for instance, a $1200 television attracts a 20% deduction while a $950 TV deducts at 37.5%pa.

Having said that, depreciation deductions are prorated depending on when you take ownership of a property.

But I'll now give you an example that proves an exception to the rule. A Sydney client of ours settled on a one-bedroom Chatswood unit on June 25 last year. The property was built in 1999 and the purchase price was $550,000. Yet their total depreciation deduction – which was for five days only – was more than $5000.

"What's the catch?" I hear you ask. Well, there isn't one. The ability to make such a significant deduction for just a short period is due to the immediate write-off and low-pooling of items that are classified as plant and equipment.

The costs of "small items" (valued at $300 or less) and "low-pooled items" (totalling no more than $1000) should not be prorated; they can be written off immediately.

You can maximise these items whether the property has been owned for one day or 365 days. And the age of the property is not relevant to claiming small items or low-value pooled items.

Plant and equipment in properties of any age are eligible for depreciation allowances.

Tyron Hyde is director of Washington Brown and has more than 20 years experience. He is also the author of property depreciation book Claim It! Visit www.washingtonbrown.com.au