MONEY COMES ALIVE

HEAR Tyron Hyde debunk three myths about depreciation on investment properties

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extra repayments, whether there is a redraw facility and whether the loan is portable. Another feature you may want to look for in an investment loan is an offset account, says Armstrong.

One important decision you'll need to make is whether to pay principal and interest or take out an interest-only option.

"Depending on the investor's personal financial circumstances, I'd recommend an interest-only loan on the investment property, and whatever principal they were to pay on their investment loan, they can use this to pay off their own home loan or other 'bad' debt," says Koulizos.

"Bad debt is defined as debt where interest is not tax-deductible and/or it was used to pay for depreciating assets or holidays. If there is no bad debt, consider using this money to fund another investment."

TIP

Consider taking a fixed rate, suggests Koulizos. "Interest rates are at historical lows now and they may not be at this level again for many years to come," he says. You may be able to pay up to three years' worth of interest in advance to be able to claim a deduction.

5. Understand the tax benefits

There are a number of expenses associated with owning an investment property, but the compensation is that you'll be able to claim a tax deduction for them, which is one of the reasons why investment property can be an affordable option.

Most investment properties in Australia are negatively geared, which means the cost of paying for the property is higher than the rental income. In that case you can claim some of the costs of the property against your other income such as salary and wages.

The types of property-related expenses you can claim include borrowing costs, bookkeeping costs, council rates, insurance, land tax, advertising for tenants, mortgage interest, garden and lawn mowing, pest control, property management fees, repairs and maintenance and strata levies.

"Another tax benefit of owning investment property is the travel expenses that you can claim," says Koulizos. "The ATO is quite generous in this area, but you need to ensure that the travel costs incurred were directly related to the investment property that you own."

If you have to pay lenders mortgage insurance because you needed to borrow more than 80% of the price of the property, the good news is you can claim it. Borrowing costs, including a large mortgage insurance premium, can be deducted over five years, says Slack-Smith.

One of the biggest tax benefits of owning investment property is being able to claim depreciation. "Depreciation is known as a "non-cash deduction" because it's the only deduction that you don't have pay for on an ongoing basis – the deductions are in-built within the purchase price of your property," explains Tyron Hyde, director of quantity surveyor company Washington Brown.

Getting a quantity surveyor to give you a depreciation schedule is probably the best money you will spend, except for spending on a renovation, says Slack-Smith.

"For as little as $500 – and this is tax deductible – you can get a report that you can use for many years to come," she says. "And all quality providers will give you your money back if you can't at least claim the cost of the report."

There are two types of depreciation allowances available – depreciation on plant and equipment, and depreciation on buildings (known as a building allowance), says Hyde. "Plant and equipment refers to items within the building like ovens, dishwashers, carpet and blinds," he explains.

"Building allowance refers to construction costs of the building itself, such as concrete and brickwork. Both these costs can be offset against your assessable income.

"A depreciation schedule or depreciation report is a document prepared by a certified quantity surveyor which provides a detailed description of your property and outlines the claimable deductions you're entitled to."

Negative gearing generally works best for high-income earners, says Joe Sirianni, executive director of Smartline Personal Mortgage Advisers. "An investor on the highest marginal tax rate effectively gets 45¢ back for every $1 they spend on a negatively geared property. An investor on the lowest marginal tax rate gets 19¢ back for every $1."

Of course, you can also look for a positive cash flow or positively geared property – where the rental income is more than the expenses. These properties tend to be harder to come by and are often in regional areas, which some argue could mean you