IMPROVING YOUR CASH FLOW

It's natural for property investors to regularly seek alternatives to improve the cash flow of their property investment, writes **Tyron Hyde**

More often than not, reducing tax liability is an effective strategy to increase cash flow.

This is based on common deductions like interest, maintenance and depreciation on a rental property. Capital works deductions also fall under this category.

When these deductions are maximised, cash returns also increase for property investors.

Instead of letting the current year pass before claiming these deductions, you can actually reduce your tax payable throughout the current year either monthly or fortnightly. This can be done by utilising the PAYG (Pay As You Go) withholding variation.

THE PAYG SYSTEM

By using Pay As You Go withholding variations, your deductions are claimed on a staggered basis, split into intervals spread over the year. The alternative is to get the full deduction when you prepare your annual tax return.

PAYG also allows your employer to reduce the rate of tax deduction against your wages. The flexibility of this scheme is an advantage to property investors, who as a result would be able to access extra money within the year, allowing for cash flow to be managed more easily.

The extra money earned can also be used to decrease their liabilities with loans.

NO DEPRECIATION CLAIMED VS DEPRECIATION CLAIMED

ONE-BEDROOM CITY APARTMENT	WITHOUT DEPRECIATION	WITH DEPRECIATION
Purchase price	$500,000	$500,00
Rental income (p.a)	$28,600	$28,600
Less mortgage (p.a. @ 6%)	$27,000	$27,000
Less property expenses (pa. @ 1.5%)**	$7,500	$7,500
Less depreciation 1st year	$-	$14,00
Tax loss / Your tax deduction	**$-5,900**	**$-19,900**
Annual refund based on 37% tax rate	$2,183	$7,363
Monthly refund if applying for a PAYG variation	$181	$613

Source: Washington Brown

DEPRECIATION'S ROLE

Depreciation, which is a non-cash deduction, is a positive catalyst in using the PAYG withholding variation method, as it helps reduce one's taxable income.

Remember that this deduction can be claimed without the investor having to spend on anything extra!

Investors can apply for this deduction by simply claiming whatever wear and tear a building and fixtures have that can serve as evidence of a decline in value over time. This is permitted by the Australian Taxation Office.

To maximise this, you can organise a depreciation schedule immediately after the investment property is acquired. It is never too early for investors to maximise their returns through the PAYG system.

Let's look at a scenario that demonstrates the difference resulting from claiming depreciation in the first financial year, where the property calls for a typical depreciation claim amounting to $14,000. In this case, we have a one-bedroom city apartment that was purchased for $500,000.

In the example above, we see the difference of $5,180 annually when property depreciation is applied under the PAYG system. Just by claiming depreciation, the property owner gains an extra $432 per month.

A QUANTITY SURVEYOR'S EXPERTISE

Applying for a PAYG variation requires you to present a property depreciation schedule that outlines all your property investment deductions in the present and the future. This is where you will need to obtain the help of a quantity surveyor.

Higher deductions in depreciation are amounts that need to be taken from an individual's regular pay packet under the PAYG system. Obtaining a depreciation schedule right after settlement is a smart move. ■

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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