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Ask the experts

Your investment questions answered

Our panel of experts advise on how renovation costs are treated as tax deductible, and on how to find the best deals

CLAIMING TAX ON RENOVATIONS

Q As a keen first-time investor, I am working on my short-term goal of being educated on the tax implications of investing. How are renovations treated as taxable items? An example would be Cherie Barber flipping an old house to increase rental prospects.

A If the renovation of your property started after July 1985, yes, you could claim depreciation on that work, and it doesn't matter who paid for it as long as you are using that property for income-producing purposes. And the good news is, even minor renovations can yield a significant amount of depreciation.

In terms of flipping a property, from my experience there are two types of property owners who 'flip' stock in the housing market.

Firstly, there are the ones who buy off the plan and try to on-sell (flip) the property to someone else prior to the settlement date.

The second type are renovation 'flippers' – they try to buy an old house or unit and immediately renovate the property to flip to the next buyer to make a profit without the intention of ever holding it.

If the flipper is successful, the good news is that they may make a capital gain. The bad news is that they won't be able to claim any depreciation along the way.

The simple reason for this is that neither flipper has ever had the property available for rent. The flipper who bought the property off the plan didn't even technically own it, due to the fact that you own a property when you settle on a property.

In both cases, if the flipping doesn't work and they end up owning the property, then claiming depreciation may become a viable option if the property becomes available for rent.

Once the property becomes available for rent, the owner of the property can immediately start claiming depreciation.

If you do hold a property that has been renovated, you can claim the costs of those renovations as a tax depreciation deduction.

A quantity surveyor will split the costs of the renovations into two categories:

- plant and equipment – things like ovens, dishwashers, blinds, etc. These items tend to 'wear and tear' more quickly, and according to the ATO can be claimed at a faster rate in comparison to…
- capital works allowance – the bricks, concrete and roof, etc. These items tend to last longer and have to be claimed over a 40-year period

It's worth noting here that if you have renovated a property that was built after 1987 (not that uncommon), then you may be able to depreciate not only the new work but the existing structure as well!

– Tyron Hyde

FINDING THE RIGHT DEAL

Q I'm starting out investing in property. I'm already an experienced share market investor. My question is this: I've set myself a goal of finding my first investment property within six months, which I feel is reasonable. I'm getting pre-approval from my own PPOR equity; I'm doing my due diligence on suburbs I think will perform; I am interviewing property managers, have budgeted plenty ($500,000 for SA, where the median for my target suburbs is under $400,000, and Adelaide in general is around that $400,000 mark), and so my 'foundation' will be there when it comes time to buy.

My only problem is, I have noticed there's not a lot of stock coming onto the market in the suburbs I want, or those that are there don't fit my criteria (they have major problems, eg are next to major roads or rail lines – things that can't easily be fixed with a coat of paint!). I feel that if I don't make progress, I may have wasted 'time in the market', or people will say, "He couldn't find anything in that time?"

A Firstly, I admire your vigour in trying to find the right deal. But compare your problems to those of others who also want to find the best opportunities rather than just any property. For every 20 properties you look at, only one is usually worth buying. That can mean lots of scouring, hunting and meticulous time management to achieve your goal. You don't want to buy a homogeneous piece of real estate, and, by the sound of things, you are looking for something that will make you money on the way in, rather just any deal.

Supply is always hard to stop; remember to follow demand rather than supply. You're looking for properties that will resell to a broad demographic, such as properties that will perform well under auction circumstances or in private treaty sales. Don't fall into the trap, as many investors do, of buying anything to keep up. You're on the right track.

You potentially want a deal that never gets to market. The best way to do this is to take your local agents for coffee and get to know them well. They will ring you when the right deal is there, if you have built a relationship. Agents are human as well and respond to getting to know people well. Often they can help you find the deal you want before market. It's a win-win.

– Sam Saggers

The experts

Tyron Hyde
Tyron Hyde is an active investor, author of *Claim It!*, arguably the first and only book on depreciation in Australia, and director of Washington Brown.

Sam Saggers
Sam Saggers is CEO of Positive Real Estate Group (www.positiverealestate.com.au). He has brokered more than a billion dollars in real estate deals and is a passionate educator and active property investor.

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