Reduce your tax by $167 PER WEEK with an investment property

The tax office can make owning a rental property more affordable – and even put extra cash in your pocket. Our team of experts explains how to make the most of the generous range of deductions

OVERVIEW
MARIA BEKIARIS

THERE ARE plenty of perks that come with owning an investment property. There's the regular rental income, the potential for capital growth and then, of course, the tax benefits. You might be surprised just how good the tax advantages can be. You could reduce your tax by as much as $167 a week when you take into account both depreciation and other deductions. (See page 31.)

Negative gearing is regularly in the headlines, with suggestions it could be for the chop because it is thought to contribute to high house prices and low affordability. But it will take a brave government to take an axe to this popular perk.

The tax advantages can make a big difference to your bottom line. Getting it right could turn a negatively geared investment property – one where the costs of paying for the property outweigh the rental income – into one that is cash-flow positive. This means the income you receive is more than the associated expenses after you take into account the tax breaks. In this case you wouldn't need a lot of extra spare cash each week to be able to afford an investment property.

Being able to claim depreciation on your investment property is great, largely because you don't actually have to spend the cash to get the benefit – the deductions are built into the purchase price. We picked the brains of quantity surveyors Bradley Beer, managing director of BMT Tax Depreciation, and Tyron Hyde, director of Washington Brown, to come up with a list of the top depreciation claims you should be aware of.

Then there are your more obvious deductions: for example, the interest cost of a loan and the property management fees. Freelance tax consultant Mark Chapman outlines some of these key deductions. (See page 34.) Something you can't claim are the buying costs, such as stamp duty, but the good news is that you will be able to add these to your cost base when you sell the property, which will reduce your profit and therefore the amount on which you need to pay capital gains tax.

For budding investors looking for locations, *Money* enlisted the help of hotspotting.com.au's Terry Ryder. He has identified suburbs across Australia that have strong potential for growth – all the locations featured are forecast to grow by 15% or more over the next three years. (See page 36.) The ACT and the Northern Territory didn't make the cut, though, as there are no markets Ryder feels he can nominate as hot spots.