PROPERTY

TAX DEDUCTIONS

'Scrapping' can recoup costs

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Investors often renovate their properties, particularly if they were constructed some time ago and show signs of wear and tear. While these projects can prove costly, there are ways to reduce the expense by maximising the tax deductions.

The tax office allows investors to claim deductions for the wear and tear of their building and the plant and equipment. Deductions for structural items can be claimed at a rate of 2.5% a year for 40 years while plant and equipment depreciate based on an individual effective life set by the ATO.

A tax depreciation schedule from a specialist quantity surveyor will help ensure deductions for wear and tear or depreciation are maximised. The schedule will outline all the deductions available for the owner to make their depreciation claim with their accountant each financial year.

Where an investor later decides to renovate, this can produce deductions in addition to those outlined in the depreciation schedule.

A process known as "scrapping" allows investors to claim any remaining depreciation available for assets or structures removed from a property in the financial year of their removal when renovating.

For example, an investor decided to renovate the kitchen of an investment property that had been purchased and rented out a year ago. In this scenario, BMT Tax Depreciation discovered the owner could claim a total of $3010 in residual depreciation for removed plant and equipment items such as a stove, blinds, light shades and a dishwasher. As the property was constructed in 1992, the owner could also claim the remaining 24 years of depreciation for structural items removed from the kitchen including the cupboards and joinery, tiles and sink. This resulted in a claim of $2336 for the owner.

When the renovation was completed, BMT reassessed the property and found $1611 in deductions for newly installed items. In total, the owner could claim $6957 in deductions for the kitchen alone.

By maximising depreciation and taking advantage of scrapping, the investor recouped some of the costs of renovating the kitchen.

Renovations may also improve an investor's chances of securing and retaining the best tenant and possibly increasing their rent.

It is recommended that investors consult a specialist quantity surveyor before and after a renovation to maximise their depreciation benefits.

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Housesitters beat high rents

If you're looking for a way to live in the city without paying sky-high rent, you could try housesitting. Unless you're allergic to cats or dogs, looking after someone's pet while they're on holidays can allow you to live there rent free. And if you market yourself properly, you can get paid to do it! There are a few sites online that can help you put yourself out there as a housesitter; some are designed to launch you on a "professional" career, while others will help you start more casually.

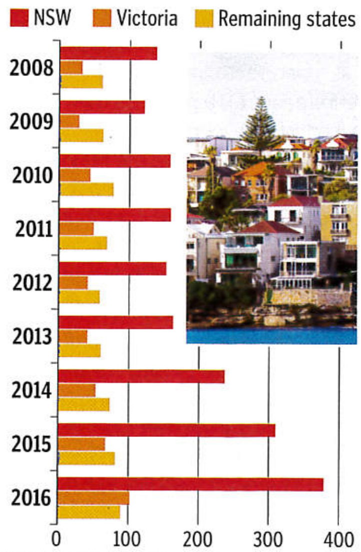
Launched in January, YourHomeMyHome.com.au is for housesitters who want a full-time gig. There are three membership levels: monthly $8.95, quarterly $19.95 and annual $79. The website is one of the more professional sites designed to put you in direct contact with home owners. It claims to have given users more than 10,000 nights of free accommodation in the past year and that one user earned almost $70,000 a year from housesitting.

If that doesn't suit, you can look for housesitting jobs on AirTasker. The app has no membership fees but if you log a successful job it will take a 15% cut of your earnings.

As with any job in the share economy, there are tax consequences. Legal liability for damages is also an issue. YourHomeMyHome says some home owners request a refundable bond.

COMPILED BY STEPH NASH

MILLION-DOLLAR HOUSE SUBURBS



Source: CoreLogic, number of suburbs

TOP LOW-RATE HOME LOANS

Reduce Home Loans (std) 3.59%pa, 3.55%pa AAPR; **Mortgage HOUSE** 3.64%pa, 3.64%pa AAPR; **Homestar Finance** (basic refinance) 3.61%pa, 3.64%pa AAPR; **Reduce Home Loans** (80% LVR) 3.69%pa, 3.69%%pa AAPR; **Pacific Mortgage Group** 3.70%pa, 3.70%pa AAPR.
Source: Canstar as at 19-Aug-16, ranked by AAPR on $250,000 loan for 25 years.