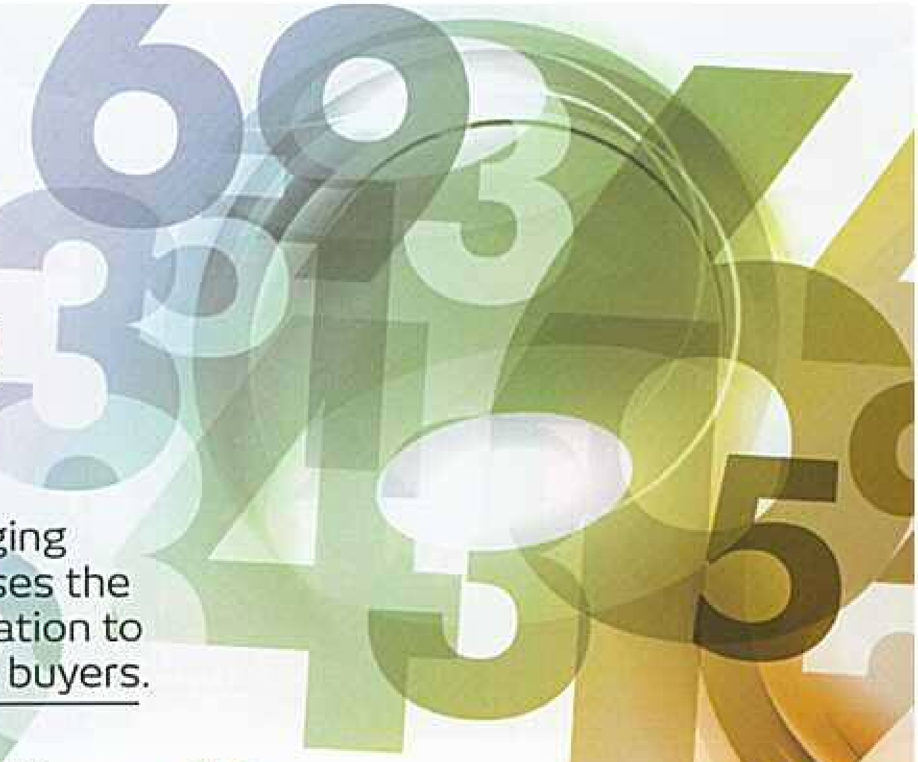

Appreciating depreciation

BMT Tax Depreciation Managing Director Bradley Beer discusses the benefits of using tax depreciation to further your relationship with buyers.

Each year thousands of new property investors work with real estate agents in NSW to search for, and secure, viable investment properties.

While most real estate agents are aware of tax depreciation and how it can create cash flow for property investors, many new investors remain unaware of this opportunity.

Research shows that 80 per cent of property investors are missing out on thousands in depreciation deductions. Depreciation is often missed because it is a non-cash deduction – the investor doesn't need to spend money to claim it.

A comprehensive depreciation schedule from a qualified quantity surveyor helps property owners take advantage of property depreciation to end up with more cash in their pockets.

Educating investors

There is an opportunity for agents to build goodwill with these investors by increasing their awareness of the value of depreciation deductions.

By putting depreciation schedules on the radar of buyers, agents may increase the perceived value of a property while demonstrating to clients that they are across all property related matters that may have positive outcomes for their client base.

It's important to remember that this situation can be a 'win-win'. If the buyer is made aware of depreciation schedules and their value, they can benefit from increased cash flow from the process. You as the agent benefit from the goodwill your efforts may have generated.

Tax depreciation tools

As a real estate professional, there are a range of tools available to help assist with this education process. One tool that you may not be aware of is a Tax Depreciation Estimate, which can show potential buyers the depreciation deductions their investment could be entitled to. These additional deductions will increase the cash returns available for the new owner, making the purchase more attractive to investors.

Property investors are always looking to maximise their investment return – and the best way to do this is by ensuring that they have a depreciation schedule, which squeezes maximum deductions from their investment property.

By making buyers aware of depreciation schedules as early as possible, you as an agent have an opportunity to create a 'win-win' scenario. ✦

"Research shows that 80 per cent of property investors are missing out on thousands in depreciation deductions."

CRUNCHING THE NUMBERS

As an example, an investor who is looking at purchasing a property for $420,000 with an appraised rental of $490 per week would receive a total income of $25,480 per annum.

The estimated expenses for the property (including interest rates and management fees) total $32,000 per annum. The following scenario shows the investor's cash flow with and without depreciation. It demonstrates that a typical $420,000 unit will experience a total deduction of $11,500 in the first full financial year.

In this example the investor uses property depreciation to go from a negative cash flow scenario, paying out $79 per week, to a positive cash flow scenario, earning $3 per week on the property. By claiming depreciation this investor will save $4,255 in the first year alone.

PROPERTY PURCHASED FOR $420,000			
Scenario without depreciation claim		**Scenario with depreciation claim of $11,500**	
Annual expenses	$32,000	Annual expenses	$32,000
Annual incomes ($490 x 52 weeks)	$25,480	Annual incomes ($490 x 52 weeks)	$25,480
Taxation loss (income - expenses)	-$6,520	Pre tax cash flow (income - expenses)	-$6,520
Total taxation loss	**-$6,520**	**Total taxation loss (pre tax cash flow and depreciation claim of $11,500)**	**-$18,020**
Tax refund (total tax loss x tax rate of 37%)	$2,412	*Tax refund (total tax loss x tax rate of 37%)*	$6,667
Annual costs of the investment property (pre tax cash flow + refund)	-$4,108	Annual cash flow of the investment property (pre tax cash flow + tax refund)	$147
Cash outlay per week	-$79	Weekly cash flow of the investment property	$3
Depreciation difference = $82 per week			

The depreciation estimates in this example were calculated using the diminishing value method of depreciation