

# Appreciating depreciation



Each year thousands of property investors work with real estate agents to search for, and secure, investment properties – but many remain unaware of the tax depreciation benefits of their investment. BMT Tax Depreciation’s Bradley Beer explains how agents can educate investors.

By BRADLEY BEER

In a competitive industry, many real estate agents are on the hunt for things that will help them to stand out from the crowd. Some agents have aggressive marketing campaigns, slick listing presentations or impressive social media followings – or a combination of all these things.

A less-mentioned point of difference an agent can leverage is an understanding of the financial aspects of a property transaction and, in particular, property depreciation.

According to the Australian Tax Office, property investors are entitled to claim tax deductions for the wear, tear and ageing of the structure of their income producing properties, and for the plant and equipment assets contained within it. Effective use and application of tax depreciation rules can increase the cash flow of an investment property, and is naturally a very attractive topic for investors expanding their portfolios.

Here are three reasons why you should consider taking some time to brush up on your depreciation knowledge.

## 1 New changes are in the works that could affect the property market

In 2017, the Federal Budget proposed changes to depreciation legislation for previously used plant and equipment deductions found in second-hand residential properties. Plant and equipment assets are the removable features of an investment property; e.g. hot water systems, blinds and stoves.

From 15 November 2017, these changes were passed by Parliament and the legislation is now in effect. The new rules limit the plant and equipment deductions that can be claimed by property investors who purchase second-hand properties to assets they’ve personally spent money on or incurred an expense for.

The rules apply to second-hand residential properties purchased after 7.30pm on 9 May 2017. However, properties purchased before this date will be grandfathered and investors can claim deductions as normal. Capital works allowances, or structural deductions, can also be claimed as normal – with these deductions typically making up around 85 to 90 per cent of an investor’s total claimable amount.

The changes don’t affect commercial property owners or tenants, or those deductions that arise in the course of carrying on a business. Corporate tax entities, superannuation plans (other than self-managed super funds) and large unit trusts are unaffected.

It’s important for real estate agents to be aware of how these changes may affect their investor clients in the future.

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## 2 Solidify trust with clients

Establishing trust with clients is often fundamental to the ultimate success of a transaction. If you can enhance an investor's awareness of various financial aspects in a transaction, there's the potential to take valuable steps toward solidifying a long-standing relationship.

By sharing your knowledge with clients, you may unlock perceived value in a property that they didn't know about. And by raising the topic of tax depreciation, you can also show that you have a real interest in their financial well-being and investment success.

By no means is a real estate agent expected to be an expert on tax depreciation. But by making clients aware of the topic and providing referrals to experts who are in the know, you can enhance your relationship with them.

## 3 Strengthen the prospect of return business

If a client feels that working with you was a positive experience, they'll be more likely to engage your services again or recommend you to others.

By making buyers aware of depreciation as early as possible, you have the opportunity to create a 'win-win' scenario. Investor clients may realise thousands of dollars of tax savings in the future, which in turn can generate goodwill.

Many top agents attribute their success to a constant hunger for more knowledge. Striving to add value to your service through self-improvement and taking the time to learn new things can be a powerful catalyst for personal and business growth.

Remember, investing a little time to improve your financial understanding of tax depreciation can help maximise value for all parties in a property transaction. ♦

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