Bradley Beer

The advantages of co-ownership

TREND ALERT: JOINING FORCES with friends or colleagues to buy an investment property may make good financial sense and also bring tax benefits for everyone. Bradley Beer explains.

Given the current economic climate, it's not surprising that investors are joining forces with friends, colleagues or family members to purchase investment properties. Beyond the advantage of increased purchasing power, co-ownership also allows investors to share the burden of corresponding expenses involved in holding the property and to take advantage of additional depreciation deductions.

A depreciation schedule, which allows investors to claim available deductions for the wear and tear of the building and plant and equipment assets contained, helps investors to reduce their tax liability and therefore increase their cash return.

However, did you know, when co-ownership applies, the deductions for plant and equipment assets are usually higher as a specialist quantity surveyor is able to apply depreciation legislation by ownership percentage and provide what is called a 'split schedule'? In a split schedule, rules such as the immediate write-off and low-value pooling are used to increase deductions for each owner.

In a standard depreciation schedule prepared for one owner, an immediate write-off allows owners to claim the full value of any asset which costs less than $300 in the financial year the asset is acquired. When there are two owners or more, an immediate write-off applies to any asset in which each owner's interest in the asset is below $300. For example, in a 50:50 ownership split both owners can write off assets totalling $600.

Low-value pooling allows owners to add low-cost assets with an opening value of less than $1,000 and low-value assets with a written down value of less than $1,000 into a low-value pool. This method means these items can be claimed at an increased rate of 18.75 per cent in the first year after acquisition and 37.5 per cent from the second year onwards.

However, in a situation where there is more than one owner, a quantity surveyor will apply pooling rules to each owner's interest in the assets. For example, in a 50:50 ownership split they can pool assets less than $2,000 in total.

The following example shows how depreciation deductions for hot water systems and heat-light and exhausts will be improved using a split report for two owners with a 50:50 ownership interest.

By obtaining a split depreciation schedule, the first year claim for each owner went from $162 to $356 and the second year claim went from $168 to $221.

A hot water system purchased for $1,450 can be depreciated using the low-value pool, while the heat-light and exhaust unit valued at $440 can be written off immediately as a $220 deduction for each of the owners.

The increased depreciation deductions become more significant when accounting for all the assets typically found within an investment property. Quantity surveyors can also take into consideration any number of owners or ownership percentage, from 60:40 to 1:99 or even four owners at 70:15:10:5. ■

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WITHOUT SPLIT DEPRECIATION SCHEDULE – 50:50 OWNERSHIP INTEREST

Asset	Total operating cost	Depreciation rate	Total first year deductions	First year deductions for each owner	Second year deductions for each owner
Hot water system	$1,450	16.67%	$242	$121	$101
Heat-light and exhaust	$440	18.75% first year 37.5% second year onwards	$83	$41	$67

WITH SPLIT DEPRECIATION SCHEDULE – 50:50 OWNERSHIP INTEREST

Asset	Total operating cost	Opening cost each owner	Depreciation rate	First year deductions for each owner	Second year deductions for each owner
Hot water system	$1,450	$725	18.75% first year 37.5% second year onwards	$136	$221
Heat-light and exhaust	$440	$220	100%	$220	NA

Deductions in this example are based on full financial year.