

ISSUE
SEP – OCT
2021

THE INVESTOR

WHAT IS RENTAL TAX DEPRECIATION?

A WAY OF MAXIMISING THE RETURN ON YOUR INVESTMENT

Rental tax depreciation is essentially an allowance for the decline in value of the assets within an investment property over time.

When you purchase an investment property (for tax purposes), you acquire a building, plus internal assets of that building, such as air conditioners, floor coverings, window coverings, appliances, potentially furniture, and other items.

In purchasing the property, the assets become a deductible amount (like an expense) that you can claim within your tax return.

Claiming depreciation reduces your taxable income that can amount to thousands of dollars in savings each year.

To claim a tax deduction for depreciation, you will need to obtain a 'tax depreciation schedule' that outlines all available depreciation deductions to maximise the cash return from your investment property each financial year.

A comprehensive tax depreciation schedule is essential as it helps to:

- Reduce your taxable income,
- Increase your cash return, and
- Put more money into your back pocket.

Tax depreciation can be complicated to calculate, claim, and manage, without the guidance and support of an expert. We always encourage our investors to seek independent professional advice.

BMT Tax Depreciation



DAMAGE TO MY PROPERTY WHO IS RESPONSIBLE & WHAT CAN I CLAIM?

'Damage to my property' is the last statement or conversation that any investor wants to read, hear, deal with, or discuss. However, the reality is... *Damage to a property* is a fact and reality that every investor needs to be aware of.

Damage to the property can relate to several different concepts, such as:

1. **Malicious damage**
The act of someone intentionally causing damage to a property.
2. **Accidental damage**
A sudden and unexpected cause of damage to a property.
3. **Fair wear and tear damage**
The normal deterioration or aging of a property.

Malicious damage (such as deliberate holes in walls or ripping out property fixtures or fittings) is something that every investor wants to avoid happening. Malicious damage can be minimised by ensuring that your property is kept in a well-maintained and presented condition to attract quality tenants, as well as having current landlord insurance to protect you from the unexpected event of malicious damage.

Accidental damage (such as a spill or stain on the carpet, a burn mark on a benchtop from a hot pan or hair curling iron or dropping an object and cracking a tile) in most circumstances may feel like malicious damage, but without the intent – 'It was an accident'. However, despite it being an accident, the tenant will more than likely still be held accountable.

Fair wear and tear damage (such as stains and marks in high traffic carpet walkway areas, generalised spots on walls, and cracked fittings or fixtures due to age) will often, be considered a normal expense or cost that is the investor's responsibility.

As an investor, it is important to know that the fixtures and fittings within a property have a depreciable lifespan. There are ATO guidelines stating that investors are responsible for the replacement cost of an item every 5-10 years, depending on the asset.

P.T.O > Continued



TALK TO THE PROPERTY EXPERTS

BUYING, SELLING & PROPERTY MANAGEMENT

CALL US... if you are thinking about buying or selling
or if you know of someone who is.

Do you own another investment property, or do you know someone who does?
We are here to support and assist our clients in creating wealth.

DAMAGE TO MY PROPERTY | CONTINUED...

The 'grey area' of *damage* that all parties (the investor, tenant, and property manager) must navigate and negotiate is predominately '*accidental damage*.'

For example

A tenant vacates the property after six years. The property manager carries out a final inspection, and it is noted that:

1. The carpets are stained in several areas, and in particular, the walkway areas are extra-marked.
2. There are general spots on many walls.
3. The toilet seat is cracked.
4. There are holes in most of the flyscreens.
5. There is a burn mark on the kitchen benchtop, and
6. There is a strong smell of pet urine within the property.

WHAT CAN YOU CLAIM... from the tenant's bond?

The answer is... '*It is a grey area*' that often comes down to compromise, mediation, or a court decision if a mutual agreement cannot be reached between all parties.

However, there are factors taken into consideration to determine the outcome.

- How long did the tenant reside in the property?
- How many tenants resided in the property? and
- How old were the fixtures and fittings when the tenant moved into the property '*taking into consideration depreciation*'?

A real hypothetical consideration of the above matter/s if taken to court:

1. The carpets are stained in several areas, and in particular, the walkway areas are extra-marked – It may be written-off as fair wear and tear due to the term of the agreement, or they may decide that the carpet has a lifespan of 10 years and pro-rata a replacement cost depending on the extent of the damage.
2. There are general spots on many walls – It may be considered fair wear and tear, depending on when the property was last painted.
3. The toilet seat is cracked – It may be considered fair wear and tear once again, depending on the age of the toilet seat.
4. There are holes in most of the flyscreens – as above.
5. There is a burn mark on the kitchen benchtop – This will solely depend on the magistrate or registrar of the court on the day, taking into consideration the above.
6. There is a strong smell of pet urine in the property – This should be considered 100% a tenant cost responsibility to rectify the situation. But once again, will solely depend on a court decision if challenged.

If any parties dispute a cost, expense, or decision, the matter will generally end up in court for a magistrate or registrar to determine the outcome, which is always unknown.

The moral of this article. It is good to have an educated understanding of anything that you invest in. It is good to *fairly and reasonably* compromise towards a win/win outcome. It is good to budget to upgrade your rental property fixtures and fittings in accordance with the ATO depreciation guideline schedules. It is good to smile.

You should not act solely based on the material contained in this newsletter. The information and statements herein are general comments only and do not constitute or convey advice per se. Seek independent professional advice before making any decision or acting. | © International copyright and published by PPM Group (www.ppmgroup.com.au)

PM NEWS UPDATE:



Molly Booker, our new Assistant Property Manager. She will be assisting Georgia Kinnell's portfolio. We believe that Molly will be an indispensable addition to the Ristic family.

Bella Torres, our new Leasing Cadet. Bella will work closely with Jacinta Scott who will serve as her official mentor. We're super excited that Ristic welcomes another strong talent.

Please join us in extending a heartfelt welcome to Molly & Bella as they begin their journey at Ristic Real Estate.

SUDOKU COFFEE BREAK

Every row & column, and 3X3 box, must contain the numbers from 1-9

	8		3	7		9	
9				6			7
		1				4	
4							3
	9			1		2	
6							1
		9				3	
5				2			9
	4		7	8		1	



Fusun Ristic
Director of
Property
Management