

Put tax deductions in your pocket all year round



How to make the most of property tax deductions.

As property investors prepare their receipts and make their annual trek to their Accountant, many will be wondering how they could improve the deductions they receive.

Those savvy investors among them will also think about how they can spend their tax returns wisely, such as by using the funds to pay off their loan faster, placing them in an offset account or by saving for a rainy day when necessary repairs and maintenance might be required.

For those hoping to get the most out of their tax return and use the deductions they receive to their best advantage, it is important to note that you don't have to wait until the end of the financial year to receive your claim.

Deductions for expenses involved in holding a property such as interest, rates, repairs and maintenance, property management fees, capital works and plant and equipment depreciation can be received on a more regular basis throughout the year simply by nominating to use a Pay As You Go (PAYG) withholding variation.

Introduced in July 2000, a PAYG withholding variation allows investors to take advantage of deductions regularly, rather than in one lump sum at the end of a financial year. A PAYG withholding variation allows your employer to vary the amount of tax withheld to anticipate tax liabilities and as a result you can improve what you receive in your fortnightly income.

Below is a simple four-step process to follow to set up a PAYG withholding variation:

1. Contact an Accountant to make sure that a PAYG withholding variation is suitable for your circumstances. An Accountant will usually organise a PAYG withholding variation by submitting estimated financial information to the Australian Taxation Office (ATO)
2. To support your PAYG withholding variation, contact a specialist Quantity Surveyor to order a tax depreciation schedule. This schedule will outline all current and future depreciation deductions for an investment property. The higher the depreciation deductions are, the less tax you will need to be taken out of your pay
3. Once a request has been approved by the ATO, your employer will reduce the amount of tax withheld, increasing your take-home pay
4. Remember, a PAYG withholding variation doesn't replace your normal tax return. You will still need to visit an Accountant at the end of the year to calculate the actual amount of tax liability

How will depreciation deductions make a difference?

The following example shows how a PAYG claim is calculated for an investor without depreciation and how including the depreciation claim will help to further improve the investor's fortnightly income.

The investor owns a house purchased for \$532,000 which is rented for \$600 per week, an income of \$31,200 per annum. They also have expenses for interest, rates, repairs and maintenance, property management fees and insurance totalling \$41,400.

Below is a summary of their situation, with and without a depreciation claim of \$13,345 which a specialist Quantity Surveyor found during an assessment of the property.

	Without depreciation claim	With depreciation claim
Purchase price	\$532,000	\$532,000
Annual expenses	\$41,400	\$41,400
Annual rental income	\$31,200	\$31,200
Deductible loss (first full year)	\$10,200	\$10,200
Depreciation (first full year)	\$0	\$13,354
Total deductible loss (first full year)	\$10,200	\$23,554
Tax refund (37% marginal tax rate)	\$3,774	\$8,715
Cash difference this refund could make applying PAYG per fortnight	\$145	\$335

The depreciation deductions in this case study have been calculated based on the diminishing value method of depreciation and are based on a first full year of ownership. A marginal tax rate of 37% has been assumed.

Before claiming depreciation, the investor will receive an additional \$145 per fortnight in their pay by applying the PAYG withholding variation.

By including the depreciation claim, the investor will receive \$335, or an additional \$190 in their fortnightly pay.

As can be seen in the example, a PAYG withholding variation will provide added flexibility for a property investor. Having access to the extra money during the year makes it easier to manage cash flow, especially when there can be surprise costs such as urgent repairs or maintenance. The additional income also gives the owner the option to invest the extra money or reduce loan liabilities.

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