Trend sees homeowners becoming investors

Discover how your tax situation transforms.

BMT Tax Depreciation recently analysed schedules and highlighted that they prepared more than 46,000 schedules for homeowners who turned their primary residences (homes) into rental properties.

This analysis demonstrates a popular trend in the residential market, where a significant number of homeowners are recognising the additional value of renting out their homes instead of selling them.

There are several reasons for this trend.

Some homeowners may need to temporarily relocate with the intention of returning to their homes. External economic factors or events may create a temporary peak in rental demand, prompting homeowners to take advantage of the higher rental yield. The most common reason is usually the prospect of long-term capital growth, along with the opportunity to use equity to finance future properties.

In some of our major cities, the majority of people who adopted this strategy have achieved substantial capital growth in recent years.

This particularly applies to those who have carried more than one property through a housing boom. Of course, this can work in reverse should there be a correction in housing prices.

No matter the reason a homeowner has for deciding to rent out their home, it's important for them to be aware of how this will transform their tax situation.

The Australian Taxation Office requires owners of investment properties to report any income they earn and allows owners of income-producing properties to claim expenses associated with the property.

Deductible expenses for an income-producing property include interest on a loan, council rates, property management fees, and insurance premiums.

By renting out their homes, owners will also become eligible to claim depreciation deductions for the structural components of the building as well as the plant and equipment assets contained in the property, subject to qualifying dates.

Regardless of whether a property is income-producing or not, the structure and fixtures experience wear and tear over time and depreciate. However, owners can only start to claim this wear and tear as a deductible loss when the property starts to produce income.

A depreciation schedule commences from when the property was initially purchased. In scenarios where the date is within two years of and a specialist provides a depreciation schedule, it should show a partial financial year calculation for the period it was income-producing.

A specialist Quantity Surveyor will also structure a depreciation schedule to maximise deductions during the time the property is income-producing and minimise deductions when the property was a primary place of residence. An example of this is establishing a low-value pool for relevant assets at the right time.

Low-value pooling is a method where low-cost assets with an opening value of less than $1,000 and low-value assets with a written down depreciable value of less than $1,000 can be depreciated at an accelerated rate. If a property was formerly a home, it is best to hold off on any low-value pooling until the property starts to produce income.

It's crucial to highlight that when property owners occupy the property, they won't be eligible for depreciation deductions on newly installed plant and equipment upgrades, as they'll be considered second-hand. They also won't be able to claim depreciation deductions during this time as its not income-producing.

Investors are encouraged to wait until they have vacated the property and it becomes income-producing before installing any new plant and equipment assets to ensure they don't miss out on these deductions.

If you are thinking about renting out your home, BMT can provide you with a free estimate of the likely depreciation deductions that will become available.

You should always discuss renting out a home with your accountant, including the potential tax implications of capital gains tax (CGT) if you plan to sell down the track.

To learn more about CGT exemptions and the repercussions that may apply, read our previous article: https://www.bmtqs.com.au/maverick/mav-52-depreciation-and-cgt?utm_source=regular&utm_medium=article&utm_campaign=trend-sees-homeowners-becoming-investors.

Article provided by BMT Tax Depreciation.

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