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Turning a home into an investment property

More and more Australians are becoming Property Investors by changing their principal place of residence (PPR) to an income producing investment property. Educate your readers about the tax benefits and implications.

Many circumstances will dictate when a PPR becomes an investment property – for example, the owner may move interstate for work; travel for an extended period overseas; they may simply decide to purchase and occupy another property or it may be financially beneficial to rent out their home and rent themselves.

Turning a PPR into an income producing property creates a different scenario for the owner's tax situation; expenses in holding the property like interest costs, rates and management fees will become tax deductible, making owning the property more affordable. The rent also becomes assessable income.

Brad Beer, Director of BMT Tax Depreciation says, "Another tax deduction available for the owner while the property is income producing is depreciation on the fixtures and fittings, and the capital allowance on the structure of the property - if it was built within qualifying dates". A BMT Tax Depreciation report determines the exact number of days that a property was rented in the first financial year as an investment property. This gives the Accountant an exact total deduction available for the partial year. A BMT report will also include any capital improvements that were made, even if they were completed while the property was a PPR. There are still potential claims for these items when the property becomes an investment.

For example, Frank purchased a property in 2006. Once he moved into the property he decided to put in a new bathroom and kitchen. In 2008 he decided to travel and work overseas and rent his property out. He engaged BMT Tax Depreciation to complete a Tax Depreciation and Capital Allowance Report and was surprised to find that the new kitchen appliances, cupboards, tiles and bathroom accessories substantially increased his yearly deduction for depreciation and building write-off.

Capital Gains Implications

A PPR will be exempt from Capital Gains Tax (CGT). However, when a home is changed to an investment property some CGT may be triggered if the property is eventually sold. There are a number of scenarios which will reduce or create a total CGT exemption. It is important to discuss this with an Accountant as each scenario is different depending on the property's first use, how long the property was lived in, how long it is income producing and if the owner purchased another PPR.

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