NEGOTIATOR eNEWS
December 2009
www.negotiator.com.au

"The beautiful thing about learning is nobody can take it away from you" – B.B. King

Welcome to the December issue of Negotiator eNews – the free newsletter with Tips, Strategies, Articles and News related to Wealth Creation.

Interest Rate News

The Reserve Bank met this month and I'm sure you've heard that they raised rates by another 0.25%. This was generally as expected as they tend to have several quick rises in a row for shock value. The good news however is twofold.

One, rates are still well below what they were only a short 2 years ago and second, the Reserve Bank don't meet again until February.

Small rises now will actually help keep rates from rising out of control later.

I would like to take this opportunity to wish all Negotiator clients and friends a happy and safe festive season and happy new year. It's been an absolute pleasure organising your finance and helping you build your wealth in 2009. Looking forward to seeing what 2010 brings.

Feature Article

Repairs versus Capital Works

A number of people over the years have asked me what is considered a repair and what is considered capital works and what can be claimed as a tax deduction.

It's an important question if you're an owner who has just done substantial work to an investment property and expects to claim 100% of that cost as repairs and maintenance come tax time. You could instead be in for a bit of a shock if you suddenly find yourself only eligible to claim $125 this year, and the rest over the next 39 years!

I work closely with a Depreciation Specialist and have developed an understanding of what is tax deductible especially as the Tax Office has been cracking down on investors claiming additional expenditure on their investment properties as repairs and maintenance.

There's sometimes a fine line between what's classed as a repair job on a property and what falls into the capital expenditure category. It's not surprising that owners find it a confusing area and I've come across some people who just want to put it into the too-hard basket – or just take a guess (which is not a good idea when it comes to the Tax Office).

The bottom line as far as the regulators are concerned is this: Are you just doing repairs to get the property back to its previous state or are you actually "improving" it – i.e. upgrading it in some way?
If you are doing repairs then you are in for some instant gratification and can claim 100% of the cost as repairs and maintenance.
If it's capital expenditure, then your deductions will be spread across 40 years.

Here are some examples that may help you tell the difference:

1. The bathroom in an investment property has seen better days. The biggest problem area is the shower, where the tenant has reported that the tiles are starting to lift and there are leakage concerns. If you decide to get the whole shower wall re-tiled in a more modern colour, including the area above the adjoining bath, then this cannot be claimed as repairs and maintenance. It has improved the bathroom and is capital expenditure. But if the tiler just replaced the broken tiles with similar ones, it's certainly claimable as a repair.

2. The stove in an investment property has broken and needs replacing. It's seven years old and is no longer available. If you stay with the same brand but buy a new wall oven and glass cooktop, this is capital expenditure because it is an upgrade to the kitchen even though you couldn't get an exact replacement. Replacing cracked tiles with a glass splashback is also capital expenditure.

3. If an investment property has a hot water unit that has stopped working and is replaced by the same size then it is under repairs as 100% deduction, but if you upgrade it to a bigger system, then you'll have to depreciate it as a capital expenditure.

There are some exceptions such as - if an owner's property was not covered by insurance – for example, no flood cover – the cost of repairs (to an equal standard) can be claimed under repairs and maintenance for that year.

There is also something called "Initial Repairs". If you buy a property that needs floorboards or a leaky roof replaced and you replace those items exactly how it was originally rather than upgrading, this is still treated as capital expenditure because the Tax Office deems that the purchasers were aware of the condition of the property when they bought it, and were intent on improving it.

So basically, repairing is just fixing it – capital works is upgrading it.

Ask The Negotiator

Email gregg@negotiator.com.au if you have any topics you would like to see covered in future newsletters.

Helpful Product/Tips

Top 10 points to consider when buying a property to renovate:

1. Don't buy the first thing that looks good - make sure it's the right deal by doing your research and checking out other property prices in the area.

2. The asking price is a guide only and is flexible for negotiation.

3. Time is not your friend when renovating - always factor in extra time for unexpected delays.

4. If you're inexperienced - always start with small renovation jobs.

5. Renovating the exterior is just as important as renovating the interior.

6. Don't waste your money renovating a property that is better off being demolished.

7. Steer clear of property with structural problems.

8. Go in knowing what you expect to get out of it - always make a plan.

9. Look past the surface of a property - find out why the vendor is selling and the history of the property so you can avoid finding nasty surprises later on.

10. Take action immediately! The faster you finish your renovations the sooner you get tenants in paying rent.

Joke Of The Month

Compare the Genders

Differences Between Men & Women:

NICKNAMES: If Gloria, Suzanne, Debra and Michelle go out for lunch, they will call each other Gloria, Suzanne, Debra and Michelle. But if Mike, Phil, Rob and Jack go out for a beer, they will affectionately refer to each other as Fat Boy, Godzilla, Peanut-Head and Useless.

EATING OUT: And when the check comes, Mike, Phil, Rob and Jack will each throw in $20 bills, even though it's only for $22.50. None of them will have anything smaller, and none will actually admit they want change back. When the girls get their check, out come the pocket calculators.

BATHROOMS: A man has six items in his bathroom - a toothbrush, shaving cream, razor, a bar of soap, and a towel from the Holiday Inn. The average number of items in the typical woman's bathroom is 437. A man would not be able to identify most of these items.

GROCERIES: A woman makes a list of things she needs and then goes out to the store and buys these things. A man waits till the only items left in his fridge are half a lime and a soda. Then he goes grocery shopping. He buys everything that looks good. By the time a man reaches the checkout counter, his cart is packed tighter than the Clampett's car on Beverly Hillbillies. Of course, this will not stop him from going to the 10-items-or-less lane.

DRESSING UP: A woman will dress up to: go shopping, water the plants, empty the garbage, answer the phone, read a book, get the mail. A man will dress up for: weddings and funerals.

OFFSPRING: Ah, children. A woman knows all about her children. She knows about dentist appointments and soccer games and romances and best friends and favourite foods and secret fears and hopes and dreams. A man is vaguely aware of some short people living in the house.
