



Raymond K H Ho & Associates Pty Ltd

Newsletter to property Investor March 2020

A beginner's guide to property depreciation

Property investors are entitled to several taxation benefits however many fail to take full advantage of the depreciation deductions available to them.

While most investors are aware of claims for expenses such as interest on their loans, council rates, property management fees and repairs and maintenance costs, depreciation is a hidden factor often not considered. To help you better understand property depreciation, here are the answers to some of the most frequently asked questions.

What is property depreciation?

As a building gets older, its structure and the assets contained within it wear out – they depreciate. The Australian Taxation Office (ATO) allows owners of income producing properties to claim this depreciation as a tax deduction.

What can you claim?

Depreciation deductions are split into two distinct categories:

- Division 43 capital works allowance
- Division 40 plant and equipment depreciation

The capital works allowance relates to claims for the wear and tear that occurs to the structure of the property and any fixed items. Capital works includes items like the roof, walls, doors, kitchen cupboards, bathroom tubs and toilet bowls.

Generally, any residential building where construction commenced after the 15th of September 1987 will entitle its owner to capital works deductions. These deductions can be claimed at a rate of 2.5 per cent per year for up to forty years.

Owners of buildings constructed prior to 1987 should still find out what deductions are available, as often these buildings have undergone some form of renovation which can result in capital works deductions.

Plant and equipment depreciation can be claimed for the easily removable fixtures and fittings found within the property. There are more than 6,000 different depreciable assets recognised by the ATO, including items like carpet, blinds, air conditioners, hot water systems, smoke alarms and ceiling fans. Each plant and equipment asset is assigned an individual effective life and depreciation rate.

Under current legislation, owners of second-hand residential properties who exchanged contracts after 7:30pm on 9th May 2017 cannot claim deductions for previously used plant or equipment assets. Investors who purchase brand-new residential and substantially renovated properties, commercial real estate or add new plant and equipment assets to a second-hand residential property can still claim substantial depreciation deductions.

How will claiming depreciation help an investor?

As the owner of a residential investment property, claiming depreciation deductions can make a big difference to your cash flow. During FY 2018/19, BMT Tax Depreciation found residential clients an average first year claim of almost \$9,000. A BMT Tax Depreciation Schedule covers all deductions available over the lifetime of a property to ensure you maximise your cash flow and is 100 per cent tax deductible.

What is involved in completing a tax depreciation schedule?

BMT Tax Depreciation start by collecting the basic information needed to prepare the schedule. This includes simple details like the name you would like to appear on your depreciation schedule, the property address, purchase information and your property manager and accountant details.

Then, a property inspection is conducted. To make this as easy as possible, BMT can contact your property manager or tenant directly to arrange access to the property. A property inspector will count, measure and photograph all depreciable assets such as the flooring, light fittings, tapware and other items. All the depreciable assets found within your property will be recorded during the inspection and reported back to your local office.

From there, the depreciation and specialist tax team will review the information gathered and prepare your tax depreciation schedule. BMT can even forward your schedule to your accountant directly, saving you time.

Property investors who would like a quote on the deductions available in an income producing property can [Request a Quote](#) online or contact one of the expert staff at BMT on 1300 728 726. **Article provided by BMT Tax Depreciation. www.bmtqs.com.au .**