Raymond K H Ho & Associates Pty Ltd

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It's a smart move to depreciate

For many investors, depreciation deductions continue to be an area where claims are missed when completing their annual income tax assessments.

Research suggests 80 per cent of investors fail to maximise the deductions they can claim from depreciation. Yet the average investor is entitled to claim between $5,000 and $10,000 in the first financial year alone.

Depreciation deductions can be quite handy to help investors improve their cash flow and put more money in their pocket. The additional funds from depreciation have the potential to help reduce loans faster, provide readily available funds for repairs and maintenance and help investors to save for a renovation or even to purchase additional properties.

So what is property depreciation? Depreciation occurs as the structure of a building and the assets within the property experience wear and tear over time. The Australian Taxation Office (ATO) allows the owners of income producing properties to claim this wear and tear as a tax deduction.

Owners of both new and older properties are entitled to depreciation deductions. While newer properties generally incur greater deductions, owners of older properties can still benefit.

A mistake many make is to assume that because their property is older, they will not be eligible to claim depreciation. Despite restrictions stating that capital works deductions for the structure of the building can only be claimed for properties in which construction commenced after the 15th of September 1987, there are no restrictions when depreciating plant and equipment.

Often older properties have been renovated. So long as the renovations were completed within the legislated dates, there will be claims for these items available, even if the renovations were completed by a previous owner of the property. Let's take a look at the deductions found for owners of both new and older properties:

Depreciation deduction assessment				
	Purchase price	First year deductions	Five year cumulative	Average annual cash return*
New unit	$450,000	$12,800	$55,040	$4,073
Old unit (1970)	$450,000	$6,900	$28,980	$2,145
New 3 BR house	$600,000	$11,200	$48,160	$3,564
Old 3 BR house (1970)	$500,000	$6,000	$25,200	$1,865

Significant deductions are usually available despite a property's age
*(First five years, calculated on a 37% tax rate.)

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As the above table shows, while the owner of a new unit purchased for $450,000 will receive $12,800 in deductions in the first year and $55,040 over the first five years, the owner of an older unit constructed in 1970 for the same purchase value will still receive $6,900 in deductions in the first year and $28,980 over the first five years. For the owner of a three bedroom house purchased for $500,000, they can claim $6,000 in the first year and $25,000 in the first five years. These are all significant deductions worth claiming.

Investors who haven't taken advantage of depreciation benefits should consult with a specialist Quantity Surveyor and request a tax depreciation schedule outlining the deductions available. The ATO also allows the previous two years tax returns to be adjusted to recoup missed deductions.

Raymond K H Ho & Associates have formed a relationship with BMT Tax Depreciation, Australia's leading experts in property depreciation to ensure depreciation deductions are accurate and maximised for their investor clients. Raymond K H Ho & Associates clients are entitled to a special reduced fee when they choose to arrange a schedule for their property.

For more obligation free advice on an investment property situation, investors can contact the expert team at BMT on 1300 728 726 or visit the residential property depreciation page on the BMT website for more information.

Article provided by BMT Tax Depreciation.

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Please contact 1300 728 726 or visit www.bmtqs.com.au for an Australia-wide service.

Or contact Raymond H K Ho & Associates Pty Ltd on 08 93703887 to further discuss this