<u>Investment Property Depreciation and Capital Allowances</u>

Maximise your depreciation claim

Of all the tax deductions available to property investors, depreciation is the most often missed since investors do not need to spend money for it to be claimed. It is already there to be claimed on the building structure and on the existing fittings and fixtures e.g. carpets, curtains, hot water service, stove etc.

“Research shows that 80% of property investors are failing to take advantage of property depreciation and are missing out on thousands of dollars in their pockets,” said Bradley Beer, Managing Director of BMT Tax Depreciation.

What is depreciation?

As a building gets older, items wear out – they depreciate. The Australian Taxation Office (ATO) allows property owners to claim a deduction for the decline in value over the effective life of these assets. You are also able to claim an annual capital allowance for the construction costs of the property. To claim these deductions the property must be available for rent or currently being rented.

A depreciation schedule helps the property owner identify exactly how much depreciation can be claimed over the life of the asset.

How to go about getting a depreciation schedule?

Investment property owners can prepare estimates of the life of the assets themselves or they can contact a specialist quantity surveyor to prepare a tax depreciation schedule to ensure benefits are maximised. Quantity surveyors have specialised knowledge on what to claim and how to maximise available returns for investors.

Once a depreciation schedule is prepared you may be able to amend prior years’ tax returns (within the time frame limitations) to re-coup any unclaimed or missed depreciation benefits. For the first year of ownership your deductions will be on a pro rate basis.

Positive / Negative of investment property depreciation

Positive - you can make upfront depreciation deductions annually while you own the property, which reduces your taxable income. Your tax saving will be based on your marginal tax rate.

Negative - the cost base of your investment property will be reduced by the capital allowance you claim on your construction costs. This will increase your capital gain once you sell the property.

You or your accountant may need to crunch some numbers to determine which strategy is best for you.

If you have any queries in relation to the above, please do not hesitate to contact us.