

GM Expat Tax

INVESTMENT PROPERTY IN AUSTRALIA: DEPRECIATION AS A TAX DEDUCTION

What is property depreciation?

Owners of an investment property are entitled to claim depreciation on the building and its fixtures and fittings. Claiming depreciation is a significant taxation benefit, and one of which many investors are unaware.

Importantly, depreciation is a non-cash deduction – you do not need to spend any extra money to claim it.

What is depreciation?

As a building gets older and items within it wear out, they depreciate in value. The Australian Taxation Office (ATO) allows property investors to claim a **rental & investment property depreciation** deduction related to the building and plant and equipment items contained within it. There are more than 1,500 items identified by the ATO as depreciable assets, and BMT Tax Depreciation constantly liaise with the Australian Taxation Office on the latest updates.

In order to claim these depreciation deductions, investors are encouraged to enlist a specialist quantity surveyor to complete a comprehensive, personalised tax depreciation schedule. A depreciation schedule outlines the deductions available on a specific property for the life of the property and is used by the property investor's accountant when preparing a tax return.

What is in a depreciation schedule?

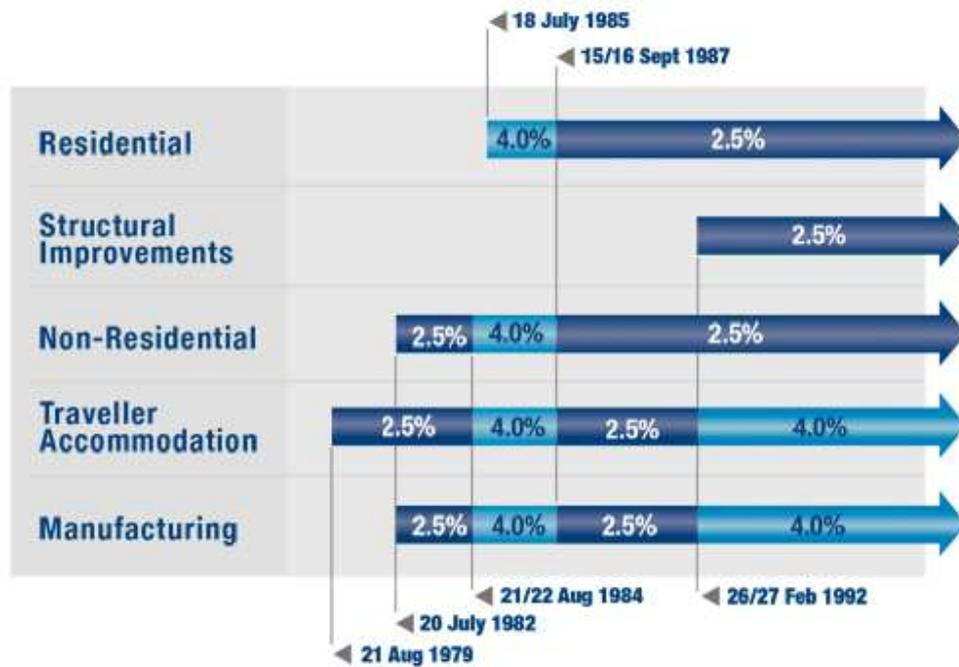
When a quantity surveyor completes an investor's capital allowance and tax depreciation claim, two main elements are taken into consideration;

- Capital Works Allowance (Division 43) and
- Plant and Equipment (Division 40).



Capital Works Allowance: The capital works allowance is a deduction available for the structural element of a building including fixed irremovable assets; this is commonly referred to as the building write off. Only some properties will qualify for this allowance.

Depending on the age of the building you can claim either 2.5% or 4% of its historical construction cost as the following graph represents.



Depending on age, buildings are qualified for the Capital Works Allowance which is a deduction on the structural elements of the building. A qualified tax depreciation specialist can help you identify maximum depreciation deductions on your pre- or post-1987 property.

What is deductible under Capital Works Allowance?

Here are a few examples of what depreciable items you may be able to claim.

- Built in kitchen cupboards
- Clotheslines
- Door and window fittings (such as handles, locks etc)
- Driveways
- Fences and retaining walls
- Garages
- Sinks, basins, baths and toilet bowls.

Plant and Equipment: The plant and equipment element is a deduction available for removable assets which are identified through ATO legislation as assets which depreciate at a faster rate than the building. Each plant and equipment item has an effective life and the depreciation available on that item is calculated accordingly.

Research by BMT Tax Depreciation shows that between 15 and 35% of the construction cost of a residential building is made up of plant and equipment articles. These include things like carpet, hot water systems, blinds, light fittings and many other items.

Maximising their value is the key to maximising a depreciation claim.

What is plant and equipment?

Examples of items that can be depreciated as plant and equipment include:

- Carpets, vinyl, linoleum and other removable floor coverings
- Hot water systems, heaters and solar panels
- Air conditioning units
- Blinds and curtains
- Light fittings
- Swimming pool filtration and cleaning systems
- Security systems

How much depreciation can you expect to claim?

An investor's depreciation benefits vary depending on the type of building, its age, its use and its fit out. Commercial, industrial and residential investment properties can all claim depreciation based on the diminishing value or prime cost methods of depreciation.

Ensuring that each depreciation claim is maximised on any building requires a combination of construction costing skills and thorough knowledge of current tax depreciation legislation.

For this reason, it is recommended for investment property owners to consult a specialist quantity surveyor to prepare a depreciation schedule before lodging their tax return.

Residential & Commercial Depreciation Examples

The depreciation benefits depend greatly on the type of building, its age, use and fitout. Based on the diminishing Value method of depreciation, several scenarios are provided below as an appropriate guide.

Residential investment property				Commercial/Industrial investment property			
Building Type	Purchase price	Year 1 depreciation	Year 1 - 5 cumulative depreciation	Building type	Purchase price	Year 1 depreciation	Year 1 - 5 cumulative depreciation
1 bedroom unit	\$300,000	\$9,000	\$40,000	Strata office	\$750,000	\$40,000	\$150,000
2 bedroom unit	\$400,000	\$12,000	\$50,000	Office building	\$1,000,000	\$65,000	\$300,000
3 bedroom unit	\$450,000	\$13,000	\$57,000	Office building	\$2,500,000	\$100,000	\$450,000
Townhouse	\$300,000	\$7,000	\$30,000	Office building	\$10,000,000	\$850,000	\$4,000,000
Townhouse	\$400,000	\$8,500	\$35,000	Warehouse	\$30,000,000	\$1,800,000	\$7,500,000
Residential house	\$300,000	\$7,000	\$30,000	Nursing home	\$16,000,000	\$550,000	\$2,500,000
Residential house	\$375,000	\$8,000	\$32,000	Retail shop	\$1,000,000	\$65,000	\$300,000

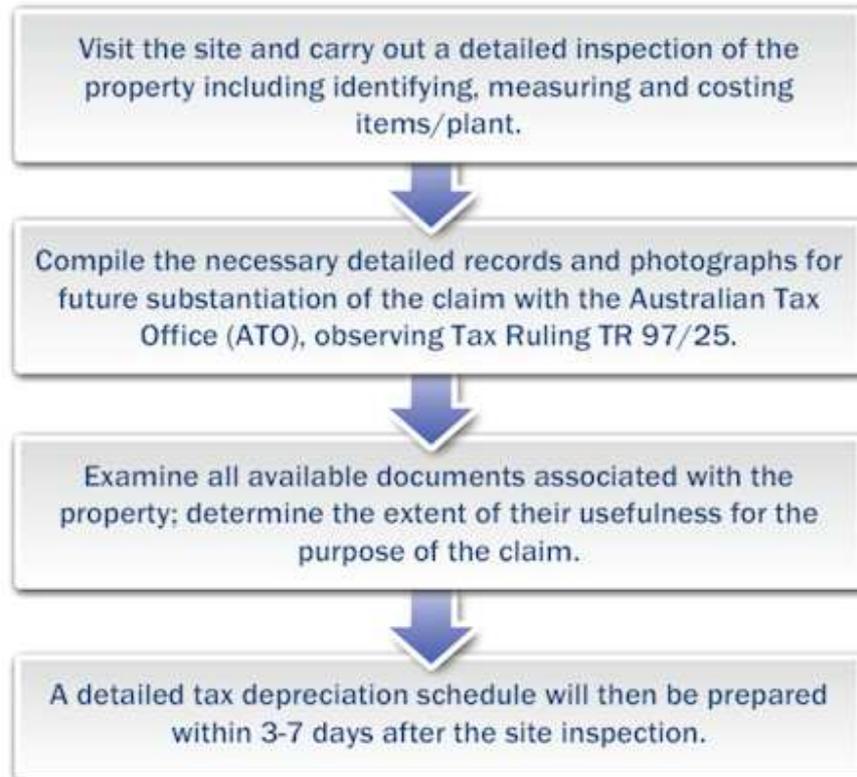
Note: each example assumes the property is less than five years old

Our Tax Depreciation Partners: BMT Tax Depreciation

BMT Tax Depreciation is accredited with the Australian Institute of Quantity Surveyors (AIQS), The Royal Institute of Chartered Surveyors (RICS) and The Auctioneers & Valuers Association of Australia (AVAA). BMT Tax Depreciation pride themselves on providing prompt and professional service to their clients.

BMT Tax Depreciation Schedule

When enlisted to provide a Tax Depreciation Schedule for a property, BMT Tax Depreciation will:



What is in a BMT Tax Depreciation Schedule?

A detailed **tax depreciation schedule** document will then be prepared for the building and would include the following components:

- A method statement;
- Summary of Diminishing Value Method of Depreciation;
- Summary of Prime Cost Method of Depreciation;
- Detailed 40 year forecast table illustrating all depreciable items together with building write off for both Prime Cost and Diminishing Value methods;
- Comparative table of the two methods of depreciation;
- The report is pro-rata calculated for the first year of ownership based on the settlement date so that the accountant has the exact depreciation deductions for each year

The tax depreciation schedule provides the basis for claiming both Division 40 (plant and equipment) and Division 43 (capital allowance). BMT Tax Depreciation specialise in maximising the total depreciation available from a given property under current legislation.

The Process of Claiming a Depreciation Deduction

- Step 1:** Phone your nearest BMT Tax Depreciation office for a quote, or complete the online request form on the GM Tax website.
- Step 2:** Once the quote is accepted, BMT will arrange access to the property with your property manager and/or tenant.
- Step 3:** A BMT Tax Depreciation staff member will visit your property and measure the building, assess the construction and record all depreciable plant and equipment items (including common areas in a strata complex).
- Step 4:** Using information from the inspection and other relevant sources, BMT Tax Depreciation will then complete your report outlining exactly how much depreciation you are entitled to each year, for the life of the property.
- Step 5:** After a thorough quality assurance procedure involving the cross checking of all figures, the report is either posted or emailed to you and/or GM Tax.

The property depreciation schedule will ensure maximum depreciable items are identified and will take into account the pooling of low-cost and low-value items allowed within the capital allowance system.

The property depreciation schedule is valid for the life of the property or until capital improvements are undertaken.

It is the aim of BMT Tax Depreciation to make the process as easy as possible for the client, gathering all information and preparing the property depreciation schedule with a turnaround time of approximately 5 days from the inspection.

If you would like to discuss further please speak with your GM Tax contact partner.

The contents of this factsheet are necessarily a general overview of a detailed subject. We therefore recommend that you take professional advice about your circumstances before placing any reliance on the contents of this factsheet.

GM Expat Tax assists individuals living outside the UK with their tax affairs, including the preparation and electronic submission of tax.

GM Expat Tax can be contacted via our website – www.gmexpattax.com - and by telephone at our offices, whose details are shown on our website.

The contents of this factsheet are subject to Copyright.