Changes announced in budget have made little impact on depreciation claims

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Depreciation Report, Depreciation Schedule, Property Tax Depreciation, Budget 2017, Changes To Depreciation After Budget, Division 43, Division 40, Do I Need A Depreciation Schedule, Depreciation And Budget 2017
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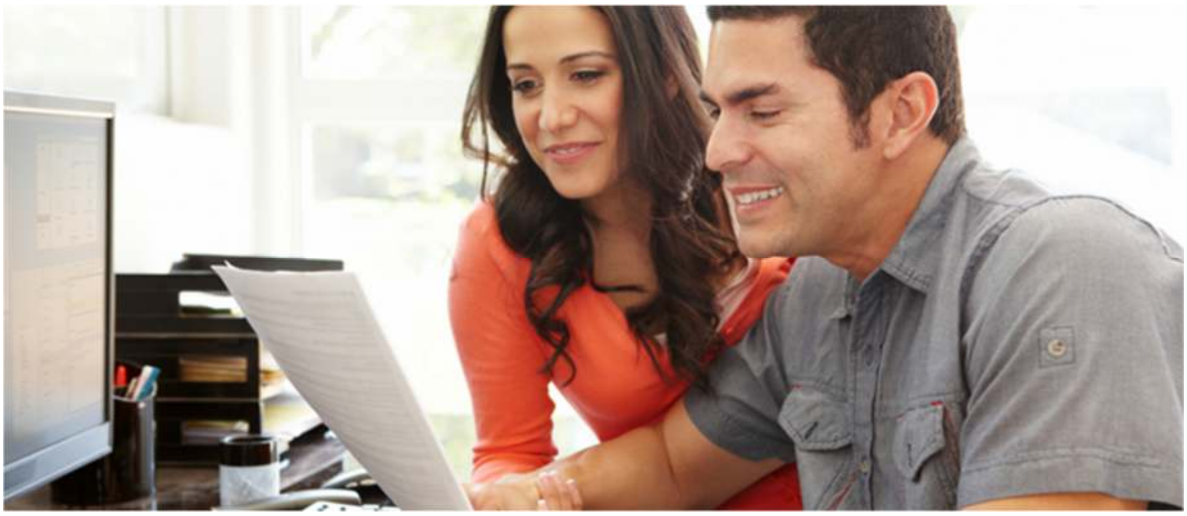

After much initial angst back in May, we have seen little difference in investor demand for depreciation schedules, with schedules requested from Capital Claims Tax Depreciation to be greater over the May - September period than compared with the same time last year. Why so?...

Most properties purchased in the 2017 financial year or earlier still qualify for significant depreciation deductions

Remember, there are still no legislative changes proposed for:

- Any properties that exchanged prior to budget announcement (May 9) - those properties are still eligible for the same deductions (both Division 43 and new and second hand Division 40 assets) that have been available to properties purchased in previous years;
- Brand new residential properties - all building and assets are still claimable under Division 43 and Division 40;
- Commercial properties - are still able to claim for capital allowances and depreciation and remain unaffected;
- Properties (residential or commercial) held by companies or large commercial trusts as investments, all deductions still claimable.

If you purchased an investment property and it exchanged prior to May 9 2017, you are not affected at all by the proposed changes.

The only properties affected by the proposed changes are properties that exchanged after May 9 2017 and are held by individuals and small trusts including self-managed superannuation funds. But there are still financial advantages to having a quality depreciation schedule for your investment property.

Smart investors who buy now know they don't miss out, the benefit of some deductions is just deferred

Importantly, investors are still able to claim capital allowances under Division 43. Division 43 deductions (known as the "building" component) are often still significant, especially for properties up to 30 years of age, or for any property that has undergone capital improvements or additions (renovations, rooms/garage/deck additions). Most older properties will have undergone significant improvement over the years and much of this work will still qualify and need to be costed by a quantity surveyor.

There appears to be a misconception that there is no longer any benefit in valuing the second hand Division 40 assets of a newly purchased investment property. Whilst the depreciation of these assets is no longer immediately claimable for investors, the value of the depreciation of these assets does become important when calculating capital gains tax at sale. These are property expenses that have not yet been claimed and can be deducted from the capital gain and help to reduce tax payable once the property is sold. With changes to CGT discounts being considered by government investors should be looking to maximise all deductions available to them at every stage of the investment property lifecycle.

If you are not sure, get a free estimate

If you are not sure of the depreciation deductions you can claim on your investment property get in touch with the Capital Claims Tax Depreciation team for a free estimate. We will consider the purchase date of your property, it's age, works completed over time and the time you have owned the property to advise a reliable estimate of deductions. This will allow you to make an informed decision for your circumstances and to discuss further with your accountant if necessary.

Remember, accountants are not qualified to estimate construction costs for depreciation purposes

Depreciation is not calculated from the purchase price (or a proportion of the purchase price), nor is it calculated from a valuation of your investment property. Depreciation is calculated based on the professionally estimated construction costs of a building and it's assets, as at the time it was built. Renovations and additions are costed as at completion or installation. Construction costing incorporates preliminary fees, professional fees and installation costs of assets. Quantity surveyors are one of the few professions recognised by the ATO to calculate constructions costs for this purpose. The ATO does not recognise construction estimates provided by accountants or real estate agents.

Quantity surveyors who are providing depreciation schedules need to have appropriate tertiary qualifications as well as be registered as Tax Agents.