Investors don’t need to miss out on claiming depreciation on second hand assets…

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As referred to in previous article click here, the amendments to legislation about claiming depreciation has changed the timing of claims for second hand Division 40 assets. Previously, the depreciation deductions for these assets could be claimed annually starting from the settlement date of the property. Since the changes were introduced, these deductions are claimable as a cumulative total when the investment property is sold, and will thereby have an impact on the CGT payable.

It is important to note that the method for claiming depreciation of Division 43 (structural works) has not changed. Division 43 works for new and second hand properties are claimable each year that the property is an investment, as they were previously.

What are Division 40 Assets?

Division 40 Assets (or Plant and Equipment) are non-structural inclusions to your investment property. Examples include air-conditioner, carpet, blinds, stove, hot water system etc.

Second hand Division 40 Assets are those assets that are not brand new and are acquired as part of the purchase of the property.

Brand new Division 40 Assets that you install yourself, or that are part of a brand new property purchase are eligible for immediate depreciation claims.

What is CGT?

Capital Gains Tax is the tax payable when a profit is made on the sale of an investment property. Please refer here to the ATO guide.

How can investors claim for the depreciation of second hand Division 40 Assets at sale?

Investors should still order a Tax Depreciation Schedule from a qualified Quantity Surveyor when they purchase an investment property, new or old. The Quantity Surveyor will inspect the property and identify, value the Division 40 works, as well itemising and valuing all of the included Division 43 Assets.

A Capital Claims Tax Depreciation Schedule can also be updated free of charge each year with the inclusion of any brand new assets that have been installed over the year.

The depreciation schedule will forecast the annual depreciation amounts of all Division 40 Assets. When the property is sold, the cumulative value of that depreciation is claimable as an expense, reducing profit on the sale as well as potential CGT payable.

Example Case Study

"Jimmy" purchased a property and settled in March 2018.

The property was an older style 60's house in NSW that had been quite well renovated by the previous owner occupier approximately 2 years before they had to suddenly sell.

Having exchanged and settled after the latest Federal Budget Announcement – Jimmy's property is subject to the new legislation.

He can make claims yearly for the Capital Allowance and Tax Depreciation Deductions for qualifying Division 43 (structural) works completed by the previous owner as well as for any further works he completes himself.

Previously, Jimmy would have been able to claim yearly for the existing Division 40 assets that were in the second-hand property when he purchased it. Under the new legislation he can, instead, claim the accumulated depreciation to offset his Capital Gains Tax at the time of his sale.

Jimmy's plan was to hold the property as an investment for 5 years and should all go according to plan, he will update/add new carpets in 2020 and then sell the property June 2023. He was organised at the time of his purchase and got a Capital Claims Tax Depreciation Schedule to make sure he was maximizing ALL of his claims.

During the time of his ownership, Jimmy will be able to claim:

Financial Years	Division 43 Claims	New Division 40 Assets Claims	Total
2017/2018	$663	$0	$663
2018/2019	$2,162	$0	$2,162
2019/2020	$2,162	$761	$2,923
2020/2021	$2,162	$641	$2,803
2021/2022	$2,162	$513	$2,675
2022/2023	$2,162	$411	$2,573
Total Amount Claimable Over the Years	**$11,473**	**$2,326**	**$13,799**

Remember, Jimmy's property is an old property built originally in the 60's so only the depreciation of qualifying capital improvements are claimable in this case.

Newer properties will see much higher annual depreciation deductions for Division 43.

At the time of his sale, Jimmy will also claim as an expense the depreciation of the second hand Division 40 Assets he acquired with the property at purchase:

Financial Years	Deferred Claims for Existing Division 40 Assets
2017/2018	Deferred $2,145
2018/2019	Deferred $2,632
2019/2020	Deferred $1,845
2020/2021	Deferred $1,320
2021/2022	Deferred $1,166
2022/2023	Deferred $1,154
At time of Sale **CGT Offset Amount** is	**$10,262**

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2019 Financial Year	$2,162	$0	Deferred $2,632
2020 Financial Year	$2,162	$761	Deferred $1,845
2021 Financial Year	$2,162	$641	Deferred $1,320
2022 Financial Year	$2,162	$513	Deferred $1,166
2023 Financial Year	$2,162	$411	Deferred $1,154
Sub total	**$13,799**		**$10,262**
Total Claimable over 5 Years	**$24,061**		

Over Jimmy's 5 years of ownership, depreciation claimable totals $24,061.

Is the cost of a depreciation schedule tax deductible?

Yes. The cost of the depreciation schedule is 100% tax deductible in the year it is purchased. A schedule will also last for the depreciable life of the building works and assets (up to 40 years), so it is a one-off investment that you can use each year when your financials are calculated. Capital Claims Tax Depreciation Schedules can also be updated free of charge each year to include new assets installed at the investment property.

Who can I talk to about depreciation for my investment property?

A Capital Claims Tax Depreciation team member will be very happy to answer any questions you may have about claiming depreciation on your investment property. You can contact Alex during business hours on 1300 922 220 or via email on alexk@capitalclaims.com.au.