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TAX DEPRECIATION

Depreciation of renovations by previous owners

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Many investors don't realise they may be eligible to claim depreciation of renovations completed by previous owners of their investment property. The depreciation claimable will depend on when the property was purchased and the nature and extent of the renovations undertaken.

Properties purchased prior to Budget 2017 (May 9, 2017)

If you purchased your renovated property before the budget speech on May 9, 2017, you are eligible to claim depreciation for both:

- Division 43 Capital Works renovations - structural/built components such as walls, roof, painting, floors etc; plus
- Division 40 Plant and Equipment - assets such as air conditioning, stove top, dishwasher, hot water system etc.

For example if the kitchen was renovated the new owner can claim depreciation on both Division 43 (the fixed cupboards, benchtops and tiles etc), as well as Division 40 (the new oven, cooktop, rangehood, dishwasher etc).

The fact that you may not know when the work was completed, or how much it cost, doesn't matter. A quantity surveyor is qualified to estimate those details and ensure your depreciation deductions are maximised.

Properties purchased after Budget 2017

For properties purchased after the May 9 budget speech, the extent of renovations completed becomes an important factor. The new draft legislation states that investors can claim depreciation for both Division 43 and Division 40 on 'new residential premises'. The term ‘new residential premises’ has, for the purposes of the amendments, the same meaning as in the GST Act. Section 40-75 of the GST Act defines ‘new residential premises’ as, broadly, premises that have not been previously sold or leased as residential premises, or have been subject to a substantial renovation or replacement of existing premises. ‘Substantial renovations’ is also defined in the GST law as, broadly, renovations in which substantially all of a building is removed and replaced (though it does not always need to involve structural alterations). For example, the installation of a new kitchen and bathroom in an existing home is not, on its own, ‘substantial renovations’.

We like to think of 'substantial renovation' as a 'The Block' style renovation - either the whole property has been replaced, or it has been rebuilt from the bare 'bones'. In this circumstance, the investor will be able to claim depreciation as if they have purchased a brand new property meaning all depreciation benefits will be available.

Properties purchased second hand that have been renovated, though not substantially enough to be considered 'new residential premises' will only be eligible to claim for Division 43 Capital Works. It is important to note that these claims can still be considerable. A renovation that included new kitchen, bathroom, paint and an entertaining deck, could still have a built value (and total lifetime deductions value) of around $60,000. The annual depreciation value you could be deducting each year could be around $1,500 per annum (in addition to whatever claims that may still be available in the original building). There could also be highly valued structural improvements that are not obvious to the untrained eye (for example re-piering, electrical re-wiring, re-plumbing, new

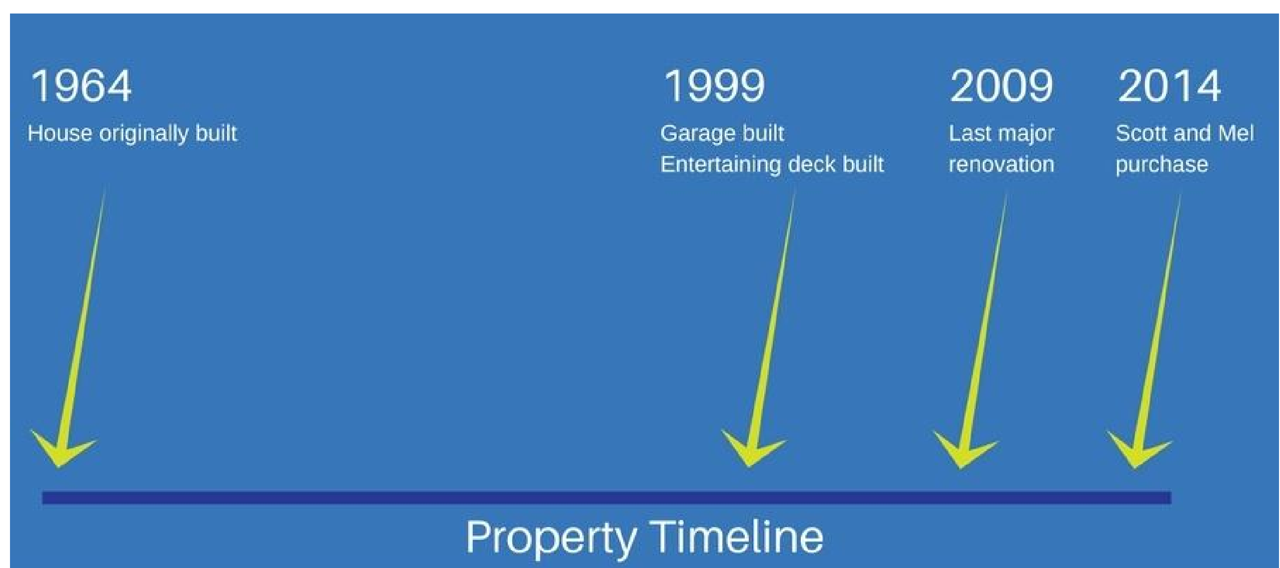
roof, garage or structural additions). They key to maximising your depreciation deductions is ensuring the construction cost of the original building, and any improvements completed since are professionally estimated by a quantity surveyor.

A good quantity surveyor will create a time-line of the history of the property to professionally estimate the date and cost of previous construction works and assets. It is important to note that very few professions are recognised as qualified to estimate construction costs and asset values. Quantity surveyors are recognised by the ATO for this purpose, but accountants and real estate agents are not. The only way to maximise the depreciation claims available in an investment property is by using a quality schedule prepared by a professional quantity surveyor.

Case Study - Old, renovated house purchased before Budget 2017

In 2014, Mel and Scott purchased a 50 year old house in the inner eastern suburbs of Sydney as an investment property. The property had undergone some substantial improvements over time, and at some stage a previous owner had added a garage and a large entertaining deck, and completed an interior renovation.

Our experts were able to produce a timeline of the property and identify thousands of dollars in depreciation deductions claimable for Mel and Scott.



As the property was so old there were no capital works claims left in the original structure. However, the garage and deck built in 1999 were costed at $45,000 combined. As more recent additions they were still depreciating at a value of $1,125.00 pa, and with 24 years effective life remaining, represented total deductions for Mel and Scott equal to $27,000.

The kitchen and bathroom assets and styling indicated to our experts that a major renovation had been completed in 2009. The major renovation included full kitchen, bathroom and laundry upgrades, new carpet throughout, blinds, air-conditioning, light shades, built-in wardrobes, interior and exterior paint, electrical re-wiring, new plumbing and some hard landscaping. The works generated new deductions for both Division 43 Capital Works, plus Division 40 Plant and Equipment. Keep in mind that as this property was purchased by Mel and Scott the assets were revalued by our team and assigned new values and effective lives. Even assets that may have been depreciated down by a previous owner will be assigned a new value and effective life at the time of purchase of the new owners (for purchases exchanged prior to May 9, 2017).

Had Mel and Scott purchased the property after the May 9 2017 budget announcements, all of the structural work would remain claimable but depreciation of the plant and equipment assets (Division 40) would not be claimable.

Total deductions identified for Mel and Scott for the 2015 financial year were $11,234.00, and $10,262.00 for the 2016 financial year. All for an old 1960's property they had done virtually no work to themselves!

If you own an investment property, the best way to ensure your depreciation deductions have been maximised is to use a depreciation schedule prepared by Capital Claims Tax Depreciation. For an estimate of deductions you may be entitled to, or to have your current depreciation schedule reviewed free of charge contact our friendly team today. Our advice and consultation is always free.

Free estimate of deductions

Find out how much depreciation you could be claiming each year

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