Still unsure about claiming depreciation since the new legislation?

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Still not sure how the new legislation affects investors ability to claim depreciation?

Every day we are fielding questions from investors and their advisers who are unsure if they should be claiming depreciation on their investment property since the new legislation was passed. What is clear is that there is still much confusion online in forums and chat rooms, and sometimes from advisers themselves. We seek here to put a few myths to bed...

Myth - Investors who purchased their investment property after May 9, 2017 are not allowed to claim for depreciation of their property

True Fact - Investors who purchased their investment properties after May 9, 2017 are still able to claim for capital allowances and depreciation of their investment property.

For purchases of brand new properties, nothing has changed in the new legislation. All structural (Division 43) and Plant and Equipment assets (Division 40) are still claimable as they were previously. Not only do these brand new properties generate the highest amount of depreciation to deduct each year, but with plans and total construction costs provided we can provide full depreciation schedules for these properties at a discounted rate. Our schedules provide full reporting for Division 43 Capital Works (for 40 years), plus itemised asset depreciation for each plant and equipment asset across their effective lives, maximising the deductions for every investor.

Investors who have acquired established (second hand) properties since the change in legislation are presented with a slightly different set of rules. Whilst all of the capital works (Division 43) are still fully deductible, the depreciation of the Plant and Equipment assets acquired in the purchase is not deductible until calculating CGT at sale time. At this time, the accumulated depreciation is recorded as a claimable deduction in the year of sale, helping to reduce CGT payable. This accumulated depreciation can be worth tens of thousands of dollars and effectively reduce CGT payable by thousands of dollars.

Myth - Investors who purchased their investment property before May 9, 2017 are no longer able to claim depreciation since the legislation change

True Fact - Investors who purchased their investment property prior to the May 9, 2017 budget announcement are completely unaffected by the change to depreciation legislation and will continue to claim their depreciation deductions as they always have.

Myth - You don't need a full depreciation schedule now because the included assets are no longer claimable

True Fact - As mentioned above, even if the included second hand assets in an investment property aren't claimable early on, the accumulated depreciation will still be deductibe as a CGT deduction at the time of sale. These deductions could be tens of thousands of dollars depending on their values at purchase and how long you had owned them at sale. A good Quantity Surveyor will determine a professional estimated starting valuation of the assets as part of the process in producing your depreciation schedule.

Myth - You don't need a Quantity Surveyor to produce a depreciation schedule now

True Fact - A Quantity Surveyor is still the most suitably qualified person to report the claimable depreciation of an investment property and it's assets.

Whether an investment property is purchased brand new or second hand it is still important to ensure that the construction costs are accurately accounted and apportioned correctly between Division 43 and Division 40. In the case of established properties a Quantity Surveyor will be required to professional estimate the original construction cost of the building as well as date and cost any subsequent improvements or additions. Even where Plant and Equipment assets may not be claimable until sale, having a registered schedule of those assets at purchase means they can be appropriately valued as at the time of purchase and written down accurately for each year. Depending on the value of the assets at purchase, and the period of ownership, these deductions could be worth tens of thousands of dollars. Accountants and real estate agents are not recognised by the ATO as suitably qualified to estimate construction costs or value plant and equipment assets. To ensure compliance and maximum results, a professional Quantity Surveyor is still your best option.

If you'd like more information in relation to the above, please don't hesitate to get in touch with our team on 1300 922 220.