capitalclaims
TAX DEPRECIATION

6 Facts Every Property Investor Should Know About Claiming Depreciation on Their Rental Property

1. Depreciation is typically one of the largest deductions available to property investors

Averaging between $6,000 and $12,000 in the first full year for standard residential properties, tax depreciation is often one of the largest deductions claimable for investors.

Average deductions claimable

Building Type	1BR Unit	2 BR Unit	Townhouse	House A	House B	Commercial	Industrial
Purchase Price	$395,000	$492,500	$445,000	$495,000	$597,000	$2.5M	$1M
Year 1 Depreciation	$11,240	$12,750	$11,120	$11,950	$12,730	$107,000	$51,450
Years 1-5 Cumulative	$39,520	$48,550	$45,870	$47,960	$51,220	$468,000	$171,600

You can access the extra cash and improve your cash flow sooner by using a tax variation form to reduce the tax deducted from your wages.

Example

Chad is a senior IT officer and purchased a unit in the city for his first investment property. The unit was built 10 years ago and Chad purchased it for $540,000 in April, 2017. Chad earns $75,000 per annum.

Chad is able to claim as tax deductions all of the typical expenses incurred when you own an investment property, such as interest on the investment loan, property management fees, rates and property maintenance.

Chad will claim $9,200 for depreciation in his first year, and will receive nearly $3,000 more cash in his tax return!

Chad is also able to claim for depreciation of his unit.
Each year Chad's unit ages, and so do all of the common areas in the unit development. Because Chad purchased his property prior to 9th May, 2017 he can claim for depreciation of the building, plus depreciation of all of the included the assets as a tax deduction. Chad obtains a Capital Allowance and Tax Depreciation Schedule from Capital Claims Tax Depreciation that reports the dollar value of his depreciation claims in the first year as $9,200. Chad is entitled to deduct $9,200 (along with his other expenses) from his taxable income for that year. Chad's report also includes the deductions he can claim every year for the remaining effective life of the property, meaning Chad never has to buy another schedule to claim his depreciation deductions each year.

Chad's income places him in the tax bracket that pays approximately 32.5% tax. The $9,200 Chad claims as depreciation deductions, gives him an additional $2,990 in his tax return for that year.

2. At least 90% of older properties still qualify for great deductions

Many investors and their advisers believe older properties are not worthwhile when it comes to claiming for depreciation. The common myth is that if the property was built at least 40 years ago, there will be no value left to depreciate and claim.

The fact is, most older properties have been improved or extended to over the years. The original building may not have claims left in it, but structural work completed in the last 30 years will qualify. If the property was purchased prior to 9th May, 2017 assets within the property that have been updated/replaced will also qualify for depreciation deductions.

Not all improvements and additions are obvious to the untrained eye. Re-piering, electrical re-wiring, re-plumbing, roof replacements, window replacements and garages are improvements and additions that are often not recognised by investors, and yet are eligible for depreciation claims.

Additionally, many investors and their advisers do not realise that for properties purchased before 9th May, 2017 Division 40 (plant and equipment) assets are assigned new values and effective lives at the date of purchase. The depreciation of these assets alone is often enough to make a report worthwhile.

Our Certain Value Guarantee

2 X our fee in deductions in the first year or no charge!

We love property investors because we love seeing people get ahead through property. As property investors ourselves, we understand the importance of cash flow and we know how to maximise the deductions available to investors in every property.

Investors will never be out of pocket for a Capital Claims Tax Depreciation Report. In fact if we don't identify deductions equal to at least double our fee in the first full financial year, we will not charge for our service.

We don't invoice for our services and then check feasibility later. We conduct a desktop assessment of every property before we start contacting property managers and tenants and start arranging inspections. If we are not certain of the value, we let our clients know straight up. Don't ever discard a property for depreciation deductions on age alone, ask us to check it out. You have nothing to lose and potentially thousands to gain.

3. Claim for other people's work

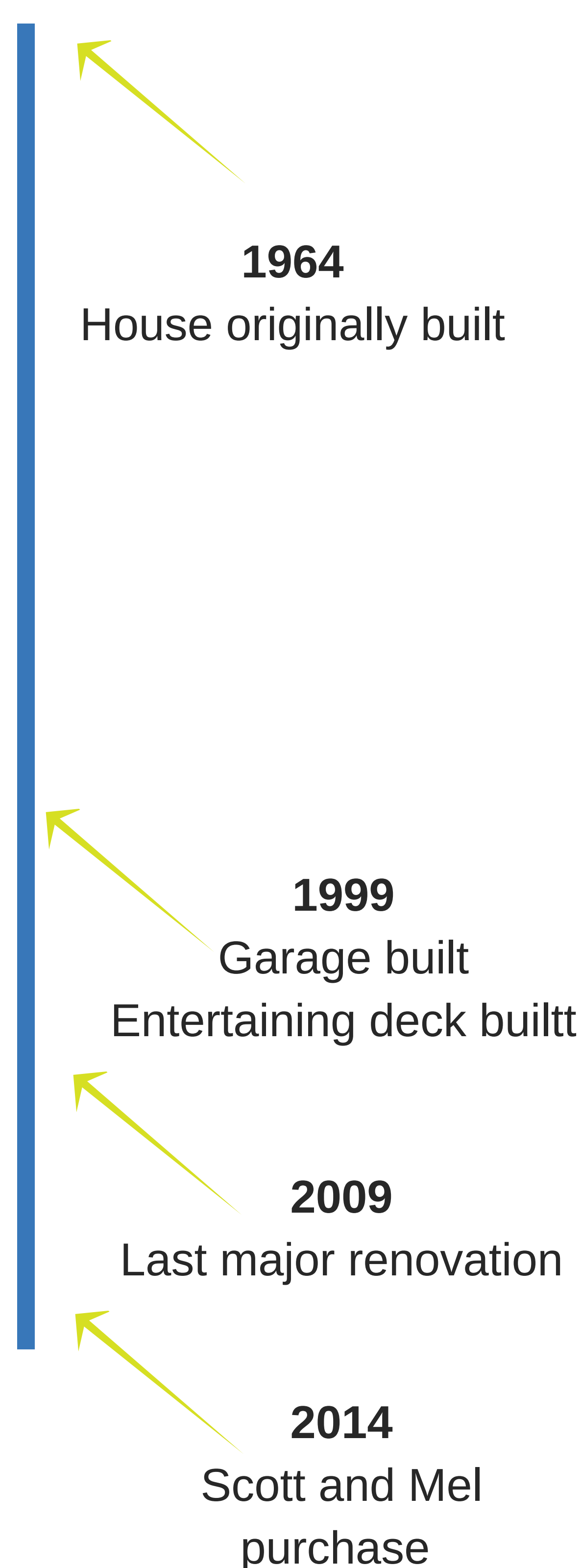
When you purchase an investment property that is not brand new, any capital improvements or additions completed on the property prior to your purchase will be considered for depreciation purposes. The fact that you don't know when the work was completed or how much it cost doesn't matter. Our experts are qualified to estimate those details and ensure your deductions are maximised.

A quality quantity surveyor will, through their inspection and property research, create a time-line of the history of the property to professionally estimate the date and cost of previous construction works. It is important to note here that very few professions are recognised by the ATO 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 produced by a professional quantity surveyor.

Example

In 2014, Mel and Scott purchased a 51-year-old house in the inner eastern suburbs of Sydney as an investment property. The property had undergone some improvements over time, and at some stage a previous owner had added a garage and a large entertaining deck.

Our experts were able to produce a timeline of the property and identify thousands of dollars in depreciation deductions claimable for Mel and Scott, though they had no idea when the additions and renovations were done, or how much they cost. The history of the property looked like this:



As the property was so old, there weren't any claims in the original structure of the house. 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 style of the kitchen and bathroom and an assessment of the assets included indicated to our experts that a major renovation had been completed in 2009. The major renovation included full kitchen, bathroom and laundry renovations, 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.

Deductions identified for Mel and Scott for the 2015 financial year were **$11,234.00**, and **$10,262.00** for the 2016 financial year.

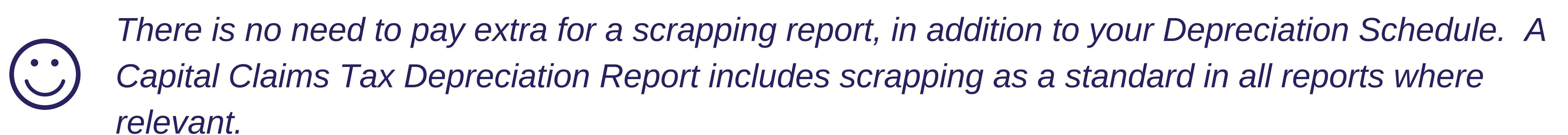
Note: had the property been purchased after 9th May, 2017 Mel and Scott would only be able to claim depreciation for the capital works (construction works) and not for any assets (plant and equipment) they acquired through their purchase. Mel and Scott could only claim depreciation for assets they purchased themselves.

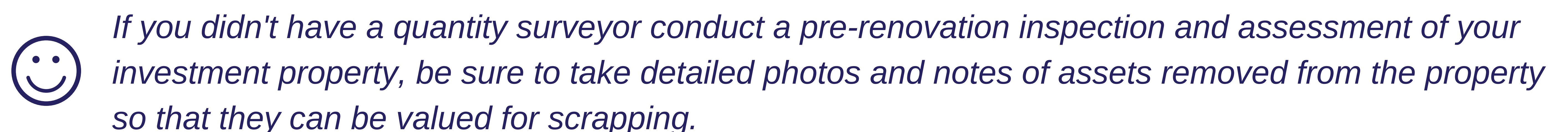
4. Claim for renovations and assets thrown away ("scrapping"/disposal of assets)

The purchasing of older or “cosmetically tired” properties for improvement and holding has become a very popular and often rewarding strategy for many property investors. The great news for investors in search of the “doer-upper” for investment purposes, is that all the work you do to improve the property in preparation for tenants increases not just the rental yield, but also the tax depreciation deductions available to you for that property.

What many investors may not have considered is the value of the items they are throwing or giving away during the course of their renovation.
For properties purchased prior to 9th May, 2017 any effective life still remaining within each asset has a value, and that value becomes an immediate write-off when the item is scrapped. For owners who purchased their property before 9th May, 2017, the key to utilising this nifty strategy is to ensure that your quantity surveyor has opportunity to value those items. This can be done via a pre-renovation inspection, or via photos and notes taken of the assets prior to removal. It is common for investors to claim up to $5,000 for "scrapping" for a reasonable renovation. Some clients have even claimed up to $100,000!
Combined with the deductions attributed to your new assets, the scrapping of old assets makes a great contribution to keeping your tax down at the end of financial year.

Owners who purchased their property after 9th May, 2017 will not be able to claim "scrapping" or depreciation on plant and equipment items they did not purchase themselves (ie. they acquired them through the property purchase).





Don't have receipts for your renos?

Don't be concerned if you haven't managed to keep track of all the costs of your renovations.
Quantity surveyors are recognised by the ATO as qualified to professionally estimate those construction costs. Any information you do have must be made available and used for costing purposes, but your quantity surveyor can estimate the rest.

5. The benefits of claiming tax depreciation typically outweigh the impact on CGT

Some investors are concerned that by claiming for depreciation now, they only increase the Capital Gains Tax that will be payable if or when they sell their property. It is true that a portion of of depreciation claimed whilst you own an investment property is deducted from the base cost when calculating a capital gain. However, consider the following:

- When you own the property more than 12 months you receive a 50% discount on your CGT liability. Combined with other potential discounts or exemption the impact is minimised even further;
- The value of the dollar you are banking today is greater than the value of the dollar you may save at some time in the future. As goods and services increase in cost over time, the purchasing power (how much your dollar can buy) of your extra dollars today is far greater than it will be in the future;
- The opportunity cost of delaying those savings could end up costing you greatly. Having the savings tied up in the property, to possibly realise at some time in the future means you are unable to use them to pay down debt, reinvest or manage expenses in the meantime;
- Only the depreciation claimed for Division 43 (building and structure) is deducted from your base cost, not the depreciation claimed on Division 40 (assets such as air conditioner, hot water system, blinds, stove etc).

Example - Please note this is a simplified scenario to demonstrate the points above only - always seek advice from your accountnant

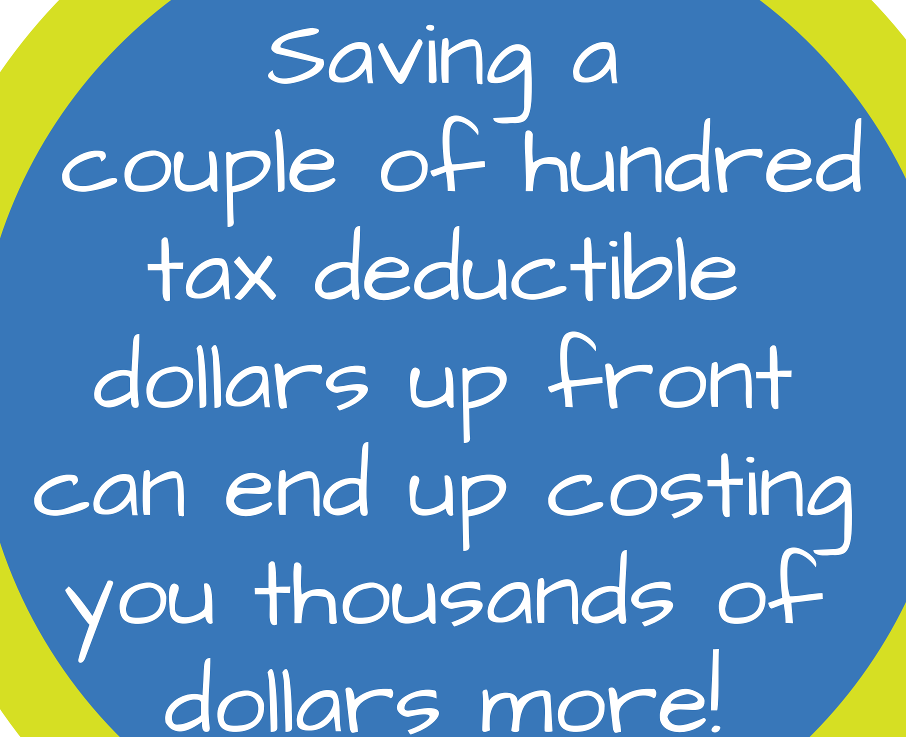
Joe bought an investment property in 2014 for $500,000. The depreciation claims available to him in the first 5 years of ownership amount to roughly $34,000:$20,000 of Division 43 (capital works), and $14,000 of Division 40 (plant and equipment). On Joe's tax rate, this means an extra $12,750 cash to him over that 5-year period. Joe decides in 5 years to sell the investment property, and sells at $700,000.

Excluding all other variables, Joe makes a $200,000 profit. Taking the depreciation claimed into consideration, the profit becomes $220,000 (purchase price or base cost has been reduced by the depreciation claimed for Division 43 and increased the profit). Joe is entitled to a 50% discount on CGT for owning his property for more than 12 months, so tax is payable on $110,000. At his tax rate he would pay $41,250 in tax. Had Joe not claimed for depreciation over the 5 years, Joe would pay $37,500. Joe's tax liability at sale has increased by $3,750. However, Joe has had an additional $12,750 over the 5 years of ownership. This he used to pay down some debt and do some improvements to the property that increased his rental yield.

6. A cheap or DIY depreciation schedule could end up costing you thousands more

If depreciation rates are prescribed by the ATO surely all depreciation schedules must be the same, right? Absolutely not! As with almost any product or service, you get what you pay for. So how can reports vary so much? Here's how:

- The ATO prescribes effective lives for all assets, but that is where the simplicity of the reporting ends. **Various legislative interpretations and provisions can be applied to maximise the deductions claimable, if your provider has the knowledge and capacity to apply them.** Examples include provisions for low-cost and low-value pooling, disposal of assets, and effective categorisation of assets between Divisions 40 and 43**.**
- Budget and DIY reports are less likely **to effectively include renovations and improvements that have been completed on the property over time**. Only a qualified quantity surveyor is recognised by the ATO to professionally estimate those construction costs and dates. Those additional works could be worth thousands of dollars of deductions.
- **Only quality providers of depreciation schedules will send an appropriately skilled and qualified inspector** to ensure all depreciable assets are identified and accurately recorded, dated and costed for depreciation purposes. We have seen major omissions from budget and DIY reports including substantial assets in the common areas of unit developments, costly capital improvements such as re-piering, re-plumbing, electrical re-wiring, new roofing and windows. Not claiming against these works can cost the investor thousands.



Don't risk an audit failure

When selecting you depreciation provider, ensure that your quantity surveyor is a registered tax agent and holds memberships with the AIQS. If your provider does not look well established, with an identifiable team, and offers a "too good to be true" price, consider whether they will be available to substantiate their findings in the case of an audit. Don't risk time and money, engage a professional and maximise your result.

Contact us today to discuss your property

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Canberra
Hobart
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Darwin
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The information contained in this document is general in nature, and should not be considered specific advice. Capital Claims Tax Depreciation recommends that all investors considering the purchase of a tax depreciation schedule consult with their professional adviser or contact Capital Claims Tax Depreciation personally for more specific advice.

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