

# DEPRECIATION FOR PROFIT



Tyron Hyde of Washington Brown discusses the depreciation implications of buying a year-old two-bedroom apartment compared to buying a new dwelling

Recently there have been articles printed highlighting the drop in property prices in major capital cities. Mortgagee in possession sales are increasing. Interest rates have been rising. And this has left many who bought at the top of the boom with negative equity in their home or investment property.

## SO DOES THIS MEAN NOW IS A GOOD TIME TO BUY?

This is hard to answer but, that aside, the difference in the tax depreciation allowances between people who bought a new property at the height of the boom compared with people picking up a one-year-old property from a distressed investor.

Investors should focus on buying a property that will achieve the highest return (yield plus growth) – and let the experts worry about depreciation.

Depreciation can vary dramatically based on the purchase price, age and type of property. As a general rule, new high-rise apartments in a large complex will obtain the highest rates of depreciation due to the fact that they generally have a lot of P&E (plant and equipment) in their facilities (for example, lifts, security systems and gyms).

However, the difference in tax depreciation allowances between a new property and the same property a year later, will be minimal.

For instance, a one-year-old two-bedroom

unit in a variety of buildings will yield the following depreciation allowances:

The main reason that there is minimal difference is because of the following:

> You can claim 2.5 per cent of the original construction cost per annum. This is known as the building allowance and includes work completed, such as the concrete, brickwork, windows, etcetera.

This allowance will not change from year to year regardless of who owns the property.

> The other deduction quantity surveyors calculate is P&E, including items such as ovens, dishwashers, blinds, etc, and generally you start depreciating these items based on what you pay for them. So the buyer paid too much for their property during the boom, they

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construction costs and P&E can be accurately estimated. The calculation of a property tax schedule is a complex task which requires skill and experience in both tax law and construction costs to provide an accurate report.

It's important for property investors to investigate whether they are entitled to any tax deductions on their investment property.

The easiest way to find out is by contacting a reputable quantity surveyor offering some form of minimum guaranteed return, or the report will be provided at no charge.

The quantity surveyor will ask a few standard questions to ascertain whether it is worthwhile for both parties to proceed. The fee to prepare a tax depreciation schedule is 100 per cent tax deductible. ■

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### High-rise one year-old, two bedroom unit, purchase price – say \$600k

First year claim	First 5 years claim	Total plant & equipment	Total years claim
\$12-15k	\$50-65k	\$50-\$60k	\$280-\$300k

### Medium-rise one year-old, two bedroom unit, purchase price – say \$450k

First year claim	First 5 years claim	Total Plant & Equipment	Total years claim
\$9-11k	\$40-50k	\$35-\$45k	\$225-\$250k

*These tables are for illustration purposes – they are of a generic nature only. They are NOT to be acted upon without specific advice relative to your investment property. Please contact this office if you require further clarification. As always you should speak to your financial advisor before acting on any investment. Washington Brown are not licensed financial advisors.*

### Low-rise one year-old, two bedroom unit, purchase price – say \$350k

First year claim	First 5 years claim	Total plant & equipment	Total years claim
\$6.5-8k	\$30-40k	\$30-\$35k	\$165-\$200k

would have also paid too much for the oven.

However, when you depreciate P&E your rate of depreciation depends on the effective life of the particular item. Therefore, a second-hand oven is older, so you are able to claim the cost sooner.

> The rate you can claim P&E purchased after the 10 May, 2006, has also increased, provided you use the diminishing value method.

> Unless the property is new and the construction costs are known, then each investment property must be inspected so the

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Wealth accumulation

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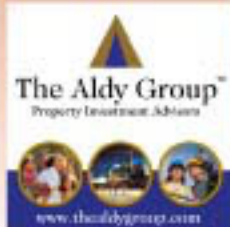
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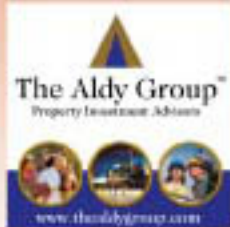
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Act now, plan now  
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