DEPRECIATION with Tyron Hyde

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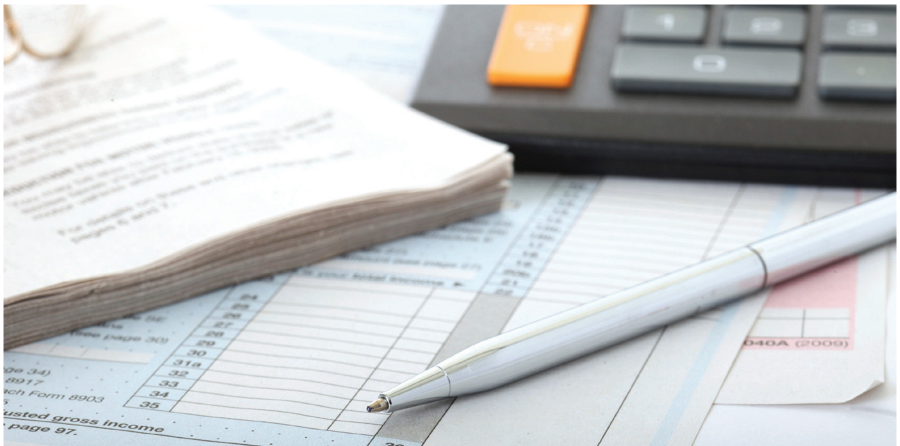
Tyron Hyde answers the top six frequently asked questions from investors about depreciation



UNDERSTANDING THE BASICS IS ESSENTIAL

Just like you claim wear and tear on a car purchased for income producing purposes, you can also claim the depreciation of your investment property against your taxable income.

There are two types of allowances available: depreciation on plant and equipment, and depreciation on building allowance. Plant and equipment refers to items within the building like ovens, dishwashers, carpet and blinds, amongst other things.

Building allowance refers to construction costs of the building itself, such as concrete and brickwork. Both these costs can be offset against your assessable income.

1. HOW DOES A DEPRECIATION SCHEDULE HELP ME?

Simple. A depreciation schedule will help you pay less tax. The amount the depreciation schedule says you claim effectively reduces your taxable income.

Depreciation is known as a "non-cash deduction" because it's the ONLY deduction that you don't have pay for on an ongoing basis – the deductions are in-built within the purchase price of your property.

All other deductions, such as interest levies, will hurt your hip pocket on an ongoing basis.

2. IS MY PROPERTY TOO OLD?

The simple answer is no. If your residential property was built after July 1985 you will be able to claim both building allowance and plant and equipment. If construction on your property commenced prior to this date, you can only claim depreciation on plant and equipment (i.e. carpet, blinds, ovens etc). But it will still be worthwhile.

3. SHOULDN'T MY ACCOUNTANT PREPARE THIS REPORT?

If your residential property was built after 1985 your accountant is not allowed to estimate the construction costs. Tax Ruling 97/25 issue by the Australian Taxation Office (ATO) has identified quantity surveyors as properly qualified to make the appropriate estimate of the construction costs, where those costs are unknown.

Real estate agents, property managers and valuers are not allowed to make this estimate.

4. MY PROPERTY IS RENOVATED. CAN I STILL CLAIM?

Yes. We will need to know how much you spent on renovations. This is an ATO obligation. If the previous owner completed the renovations you are STILL entitled to claim depreciation. In either case, where the cost of renovation is unknown, a quantity surveyor has been identified by the ATO as appropriately qualified to make that estimation.

5. HOW MUCH WILL I SAVE?

Each property is different and many varying factors must be considered when preparing a property depreciation schedule. There are several depreciation calculators on the market. I suggest you Google "depreciation calculator" to find one.

6. I BOUGHT MY PROPERTY THREE YEARS AGO. CAN I CLAIM?

Yes you can. Your accountant can amend your previous tax returns up to two years previous. There are some exceptions so please contact your tax agent or the ATO.

Tyron Hyde is a director of quantity surveying firm Washington Brown. He has a degree in construction economics and is an associate of the Australian Institute of Quantity Surveyors.