

Property Depreciation 101

Seasoned property investors know all about this one. Depreciation. Yet every year thousands of dollars go unclaimed by property investors who are none the wiser. So with tax time here again, Tyron Hyde, AAIQS and Director of Washington Brown Quantity Surveyors, has provided an essential guide. Let's call it Depreciation 101.

1. What is Property Depreciation?

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 & Equipment (such as blinds, carpets and air conditioners) and depreciation on Building Allowance, which refers to construction costs of the building itself, such as concrete and brickwork.

2. So 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 and the savings can be substantial. You can estimate your depreciation using the free depreciation calculator found at www.washingtonbrown.com.au.

3. Is my property too old to claim Property Depreciation?

The most common misconception is that only new property can be depreciated and this is simply not true. If your residential property was built after July 1985 you will be able to claim both Building Allowance and Plant & Equipment. If construction on your property commenced prior to this date, you can only claim depreciation on Plant and Equipment but it will still be worthwhile. In about 99% of cases we find enough plant and equipment items to justify the cost of engaging our firm.

4. I bought my property three years ago. Can I still make a claim?

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

5. 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. Where the cost of renovation is unknown, a Quantity Surveyor has been identified by the ATO as appropriately qualified to make that estimation.

6. 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. The 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.

7. Should my depreciation provider be a registered Tax Agent?

From 1 March 2010 all companies that prepare Tax Depreciation Schedules must be registered Tax Agents. The Australian Institute of Quantity Surveyors (AIQS) is a "recognised Tax Agent Association", enabling full members of the AIQS who have sufficient experience to gain registration as Tax Agents.

8. Will you need to inspect my property?

A site inspection of your property is necessary to satisfy ATO requirements and also ensures that all depreciable items are noted and photographed. This guarantees you won't miss out on any deductions and the documentation can then be used as evidence in the event of an audit.

The best time to get a Quantity Surveyor to inspect your property is immediately after settlement and

hopefully just before the tenant has moved in. But if that's just not possible, Quantity Surveyors can liaise directly with the tenant or property manager in order to cause minimal disruption.

9. How much will my Property Depreciation schedule cost?

The cost of preparing a tax depreciation schedule varies according to the type of property you've purchased, location, size and numerous other factors.

Most of the leading Quantity Surveying companies offer a money back guarantee to save you twice your fee in the first year or they give you the report for free.

And Quantity Surveyors fees are 100% tax deductible. ■

Tyron Hyde is 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.



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How much are you tipping the tax man?

Chances are you've been paying too much tax if you own an investment property and haven't had a professional depreciation report prepared for your property.

At Washington Brown we guarantee we'll save you twice our fee in the first twelve months or your report will be free!

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