Tax Depreciation: Myths & Truths

By Tyron Hyde, AIQS

I've been in the industry for 22 years now and during this time I have heard some incredible statements regarding property depreciation. With that in mind it's time to clear these up. Here are my top 8 myths and truths…

1. MYTH: You can only depreciate new properties
The truth is old properties depreciate too because the purchase price of your property includes the land, building, and plant and equipment. This means even properties built before 1985 (when the building allowance kicked in) are worth depreciating.

2. TRUTH: Taller buildings get higher depreciation
Taller buildings attract higher plant and equipment allowances and the higher the plant and equipment, the higher the depreciation. Some of the services required as buildings increase in height are obvious, such as a lift (transport service). Other services are less obvious, with fire hose reels and intercoms all being depreciable under this category. The other reason tall buildings have a higher ratio of plant and equipment has to do with the amenities the developer provides. For instance, some high-rise buildings have swimming pools, gyms and even mini cinemas.

3. MYTH: All construction costs are eligible for depreciation
In this country we are fortunate we can claim the depreciation of an investment property as a tax deduction. BUT not all construction costs are eligible.

When claiming depreciation of a building we are essentially claiming what is there now. So it stands to reason that the costs such as demolition or site clearing can't be claimed. In similar fashion trees and grass grow, so they don't depreciate over time.

4. MYTH: All depreciation reports are the same
Time and again, we field inquires from those that have found companies offering DIY depreciation reports and for just a few hundred dollars. Well, don't touch the DIY depreciation options. Only accredited quantity surveyors are trained in estimating building costs. Incorrect measurements can lead to missed deductions and poor quality reports are more likely to attract an ATO audit.

5. TRUTH: Building profit CAN be claimed.
The truth is if you engage a builder directly to complete your investment property, then the profit component of the work can be claimed. However, if you buy from a speculative builder/developer – then the profit does not form part of the amount you can claim.

6. MYTH: A depreciation report is not worthwhile for a property bought close to the end of the financial year
In the first financial year of ownership, it is not uncommon for an investor claim thousands of dollars worth of deductions for a property purchased close to June 30. Why? Well, specific plant items in the property valued under $300 are eligible for an immediate write-off and and those under $1000 can be low-pooled and written off at an accelerated rate of 18.75%. As neither of these amounts should be pro-rated, they can be claimed in full regardless of whether the property has been owned for 1 day or 365 days.

7. TRUTH: Furnishing can boost your depreciation claims

Furnishing your property is another way to increase your depreciation deductions as it attracts higher depreciation rates. For example, a $20,000 furniture package supplied by a developer can result in an additional $10,000 deduction in the first year alone. But remember, furnishing your investment isn't necessarily the best option for all properties and locations. It's better suited to smaller one or two bedroom apartments in transient areas that attract short-term tenants and holiday rentals.

8. MYTH: Accountants can prepare depreciation schedules

The truth is an accountant, real estate agent or property valuer is not qualified to make this assessment in accordance with the ATO. The ATO has identified quantity surveyors as appropriately qualified to estimate the original construction costs in cases where that figure is unknown.