QS Corner

This month we look at claiming the maximum property depreciation up front.

When you receive a depreciation schedule you have a choice to make.

You have to decide whether you want to claim the depreciation based upon the Diminishing Value method or the Prime Cost method.

Last month we looked at the Prime Cost Method…this month we look at the Diminishing Value Method (DVM).

The DVM is slightly more complicated. The decline in the value of the item progressively gets smaller over time on the way towards $0.

For example: If the Carpet you bought has a value of $1000 and a ten-year effective life you would calculate as follows:

Year 1 - $1000 x 20% = $200

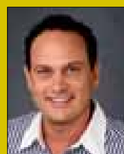
Year 2 = (1000 – 200) = $800 x 20% = $160

Year 3 = (1000 – 200 -160) = $640 x 20% = $128

And so on and so on.

Property investors tend to use the DVM when they want their deductions up front.

N.B. I used the rate of 20% because if carpet has a 10-year effective life – that means it has a 10% prime cost rate. And for Plant items purchased after May 10 2006 - you double the Prime Cost rate to get the DV rate.



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