QS Corner

TIP #9

Hello and welcome to QS Corner! This month we explore the benefits of slowing down depreciation.

When you receive a depreciation schedule you have a choice to make – claim the depreciation based upon the Diminishing Value method, or the Prime Cost method.

Both methods are based upon the effective life of the asset – i.e. how long it will last.

This month we will examine the Prime Cost method.

The Prime Cost is a simpler method and evenly spreads out how much you can claim each year.

For instance, if the carpet you purchased was $1000 and has an effective life of 10 years – you can claim $100 for 10 years or 10% per annum.

As a taxpayer you can make your own estimate of the effective life of the asset or use the Commissioner's effective life determinations (Refer to Taxation Ruling TR 2009/4).

This method enables you to slow down the depreciation claimable, as opposed to the Diminishing Value method that accelerates the claim in the earlier years. (More on that next month.)

This may suit someone, for instance, who bought the property and lived in it for 3 years or so before turning it into a rental property.

By slowing down the claim you will not miss out on as many deductions.

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