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New depreciation report to maximise building allowances

Washington Brown's new Building Allowance Maximiser™ report helps residential investors maximise depreciation claims following recent law changes.

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While the changes to depreciation announced in last year's Federal Budget put residential property investors on the back foot when compared to commercial property investors, there are ways to even the playing field, according to Washington Brown.

The quantity surveying organisation has come up with a number of strategies to help residential property investors crack the new laws and make the most of depreciation, one of which is through its new Building Allowance Maximiser report.

The new report – the first of its kind in the industry - was revealed as one of two major announcements by Washington Brown at its Surprise 40th Birthday last night, held at the Australian Museum.

As the name suggests, the report maximises building allowances, which is the only type of depreciation that residential property investors can now claim for second-hand properties following the Federal Budget changes, said Washington Brown CEO Tyron Hyde.

"I think the Federal Budget changes made last year to depreciation law were short-sighted, with residential property investors disadvantaged due to limitations on depreciation claims, even for properties that are less than one year old, while commercial companies like Westfield are able to buy a 50-year old shopping centre and claim the lot.

"I don't think that's fair, but we're helping investors to even the playing field.

"The changes mean residential property investors can no longer claim depreciation on plant and equipment items, such as ovens and dishwashers, if the item is second hand, but they can still claim depreciation on the structure of the building, which includes bricks, concrete, windows and tiling, provided the property was built or renovated after 1987.

"These costs typically represent 85% of the building cost, so that's good news. But we want to turn it into great news by maximising the building allowances for investors."

The Building Allowance Maximiser details these deductions by splitting the building allowance into individual categories, rather than lumping it all together, which is how it has traditionally been done. Washington Brown is the first quantity surveying company to use its patent-pending systems to break down the items, which is not an easy process.

"Up until now, when you order a depreciation report, quantity surveyors would have given you a lump sum total for your building allowance - based on the Federal Government's guidelines that these items all last approximately 40 years," said Mr Hyde.

"For instance, if a house costs $250,000 to build and there's $50,000 of plant and equipment, in the past the remaining $200,000 would be lumped together as one for the building allowance, which you can generally claim depreciation on at 2.5%, for properties built after September 15, 1987.

"The tax office has said kitchen cabinetry, tiling, vanities, brickwork and concrete are all the same - they're all going to last for 40 years - but I disagree.

"In our experience, investors tend to update things like kitchens and bathrooms every 20 years, so breaking down the building allowance into components – rather than treating it all the same – is much more beneficial."

Property investors that use the Building Allowance Maximiser report – and update some of the structural items in their property, such as kitchen cupboards, in a renovation – will be able to claim the full amount of residual depreciation left on the items as an immediate tax deduction when they replace them.

"So let's say I bought a property 20 years ago, with kitchen cupboards that cost $10,000 to build," said Mr Hyde.

"Because they're half way through its 40-year life, I've only claimed 50% of them in depreciation - which is $5000.

But that's just the cabinets, when you add the splashback, the bench tops, the sink, the tiling, ceilings, flooring, plumbing & electrical - these items could quickly add up to $25,000 left on the table in unclaimed deductions.

"When I remove them today, using Washington Brown's new report I will be able to claim that remaining $25,000 as an income tax deduction. Not bad!"

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