TAX DEPRECIATION & CAPITAL ALLOWANCES

An Outline of Tax Depreciation and Capital Allowances for Residential and Commercial Investment Properties

REDLINE QUANTITY SURVEYORS

What is Tax Depreciation?

- Tax Depreciation is a tax deduction available to the owners of income producing residential and commercial investment properties
- An incentive introduced by the Federal Government to encourage Australians to invest/save for their retirement

Typical Investment Property Analysis

- The original construction cost of an investment property can be analysed for tax depreciation purposes in the following manner:
  - Division 40 items (Tax Depreciation)
  - Division 43 items (Capital Allowances)
  - Non-eligible items (Site works and soft landscaping)

Division 40 Items

- Tax deductions for capital expenditure incurred on plant and equipment items for applicable properties* including:
  - Carpets, vinyl, floating timber floors
  - Window coverings – curtains/blinds
  - Appliances
  - Air-conditioning equipment
  - Hot water systems
  - Electrical items - light fittings, fans, smoke detectors, solar systems, motors, pumps, alarms, etc
  - Common property items – lifts, pool equipment, gym equipment, BBQs, furniture, etc

  *note, Legislation changes introduced on 9 May 2017 limited Residential Division 40 depreciation entitlements to the investor who first acquired the plant and equipment.

Division 43 Items

- Tax deductions for Capital Works
  - Building structure (slab, walls, roof, etc)
  - Includes driveways, swimming pools, etc
  - Current rate of depreciation is 2.5% p.a. of the original applicable construction cost

Who can claim?
When can I claim?

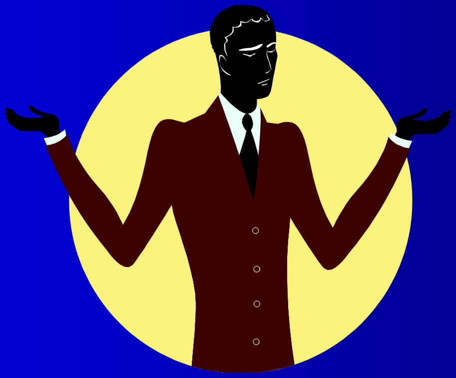
- All owners of income producing investment properties can claim a tax deduction
  - Legislation changes introduced on 9 May 2017 limited Residential Division 40 depreciation entitlements to the investor who first acquired the plant and equipment. Residential and Commercial Properties acquired pre 9 May 2017 are unaffected by the changes
  - Division 43 items can be claimed on residential properties constructed after 18 July 1985 and commercial properties constructed after 20 Jul 1982

What cost/value must I use?

- Division 40 items are based on the cost to the taxpayer. This cost must be reasonable and take into account the item's historical cost, age and condition
- Division 43 items are based upon the historical cost to construct the building at the time it was built

Why engage a Quantity Surveyor?

- As the Division 43 items require an estimate of the original construction cost, an independent expert in the estimation of construction costs is required
- A Quantity Surveyor is a university educated construction consultant that specialises in the estimation and cost control of construction projects



What should I look for in a Quantity Surveyor?

- A firm that has a proven track record in the preparation of Tax Depreciation Schedules
- A firm that is a registered Tax Agent Company and/or employs registered Tax Agents (refer www.tpb.gov.au). You must be a registered Tax Agent in order to prepare Tax Depreciation Schedules
- A firm that employs university qualified Quantity Surveyors
- A firm that employs Members of the Australian Institute of Quantity Surveyors (AIQS). These Quantity Surveyors are identifiable by the post nominals MAIQS after their name.

How much should a Tax Depreciation Schedule cost?

- In a poorly regulated profession you should be less concerned about the cost of the Tax Depreciation Schedule and more concerned that the Company you engage meets ALL of the above criteria (on previous slide)
- Once you have established that you are dealing with a qualified company you should expect to pay anywhere from $400 to $700 for most residential properties depending on a range of factors such as age, location, size, extent of improvements / renovations, etc

Which is best? New or old?

- In general terms, the newer the property, the better the tax deduction will be (particularly in light of Legislation changes introduced on 9 May 2017 as previously mentioned)
- Older properties still attract depreciation deductions but as construction costs have risen depreciation deductions have risen proportionately
- If the return on investment is comparable between a new and second hand property, the better way to go, in terms of tax depreciation, is usually the newer property