BMT Tax Depreciation
QUANTITY SURVEYORS

MEDIA RELEASE

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ATO crackdown – how residential property owners can avoid some common penalties

Each new year it seems that the Australian Taxation Office (ATO) announces its resolve to target a particular area of taxation.

This year, it has indicated it will be ramping up its investigations into rental property deductions for owners of residential property. This may pertain to a variety of deductions, but a key one of particular relevance to income-producing property owners is tax depreciation deductions. Some of the more common errors the ATO claims are committed include claiming deductions for properties not actually available for rent, or failing to apply a pro-rata approach to deductions on a property which is only available for rent during a portion of the year.

I believe most property owners are very keen to comply with ATO legislation, however navigating the different rules can sometimes be challenging.

Below are some of the other common ways property owners can be caught out when claiming deductions – and what can be done to avoid this.

Claiming capital works assets as plant and equipment deductions

Deductions can be claimed for two different categories of assets: capital works, and plant and equipment. Capital works assets comprise the structural elements of a building, including fixed and irremovable assets. Plant and equipment assets, on the other hand, depreciate at a faster rate according to an effective life set by the ATO, and the depreciation available on each item is calculated accordingly.

Determining which assets qualify for which category can be a sizeable challenge without the help of a professional. Sometimes it may seem that a certain asset is supposed to be in one category or the other, when in reality this is actually pre-determined by the ATO.

TV antennas in residential properties are a great example of this. Though it may seem that they will wear down much more quickly than the rest of a building (which is depreciated over 40 years), they are still classified by the ATO as a capital works asset. This means that even if your TV antenna physically wears down in just 5 years, it must still be written off under the capital works deduction at 2.5% for 40 years. By writing this asset off over a shorter timeframe, you could put yourself at risk of being caught out by the ATO.

Self-assessing the effective life of an asset

This point follows on from the one above, in that it can also be tempting to think you are able to estimate the effective life of an asset yourself. As an example, your carpet may seem old and already worn out, so you may believe its effective life is just two years. However, the ATO assigns a specific effective life to every single asset. Carpets are currently deemed as having a life of 10 years.

Even though there is a provision for you to self- assess an assets effective life based on your own estimations, you may even be at risk of triggering an ATO review. I've spoken to a number of accountants who believe that self-assessing can trigger the ATO to have a closer look at your claims, which could then leave property owners open to the possibility of being caught out. By having a professional ensure all assets are depreciated over the correct number of years, you may be able to avoid getting in serious strife.

Claiming capital improvements as repairs and maintenance

Property owners can also claim on repairs and maintenance made to income-producing properties. However, sometimes what appears to be repairs and maintenance instead actually falls under the different category of capital improvements.

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Understanding the difference between these terms may help prevent you from getting caught out. “Repairs” typically involve restoring something to its original state, while “maintenance” relates to work which prevents deterioration. According to the ATO, these both must relate to wear and tear occurring as a result of renting out the property.

Capital improvements, on the other hand, involve any works which result in an improvement on the original state of the property. Deductions pertaining to capital improvements must instead be claimed at the slower rate of capital works or as depreciation.

Taxking short cuts

All of the above may be avoided by simply hiring the services of a professional quantity surveyor to produce a tax depreciation schedule for you. The cost of having the schedule prepared is tax deductible in itself, and qualified depreciation experts will visit your property to assess the exact assets you are eligible to claim for. They will write up a depreciation schedule which accounts for every possible deduction, and ensure every calculation complies fully with the ATO.

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About BMT Tax Depreciation

BMT Tax Depreciation (BMT) is a Quantity Surveying company specialising in the provision of tax depreciation schedules for residential and commercial investment properties. Commencing business in 1997, demand from property investors nationally has seen business expand Australia-wide with offices now located in Sydney, Parramatta, Melbourne, Brisbane, Newcastle, Adelaide, Perth, Gold Coast, Cairns, Canberra, Hobart and Darwin.