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THREE COMMON DEPRECIATION MISTAKES THAT COULD COST PROPERTY INVESTORS THOUSANDS

Investment property owners make three costly mistakes when it comes to maximising their tax return according to BMT Tax Depreciation, Australia's leading provider of depreciation schedules.

Property investors can claim sizable tax deductions for the natural wear and tear that occurs to a building and its fixtures and fittings over time. These deductions are known as property depreciation.

Specialist quantity surveyors are one of the few professionals recognised as having the skills to estimate construction costs for depreciation purposes, yet many people fail to engage one and miss out on claiming valuable dollars back at tax time.

Expert quantity surveyor and CEO at BMT Tax Depreciation, Bradley Beer, has revealed the three most common depreciation errors he sees.

1. Getting the depreciation category wrong

There are two types of depreciation deductions: capital works (Division 43) and plant and equipment (Division 40). According to Bradley Beer, "it's often not immediately clear which category an item belongs to, and in some cases an asset can be split between both."

Capital works are claimed for the wear and tear of a building's structure and the items permanently fixed to the property, such as doors and windows. Capital works are typically depreciated at an annual rate of 2.5 per cent over 40 years.

Plant and equipment items can be easily removed, and include things like blinds, hot water systems and furniture. The condition, quality and effective life will determine the allowances available for a plant and equipment asset.

"Many investors mistake floating timber flooring as permanently fixed to the building and therefore a capital works deduction when it's actually removable, making it a plant and equipment deduction," said Bradley Beer. "This could mean the difference between \$250 and over \$1,300 in first year deductions."

A ducted air conditioning system is another example, where the unit itself is considered plant and equipment while the ducting for the same unit falls under capital works.

"Claiming an entire ducted air conditioning unit under Division 40 would result in substantially higher but incorrect first year deductions, which would come under ATO scrutiny," said Bradley Beer.

2. Assuming depreciation on older properties can't be claimed

Research proves that new properties hold the highest depreciation deductions, but many people mistakenly think that depreciation can't be claimed on older properties.

Legislation introduced in late 2017 means that depreciation of second-hand plant and equipment assets can no longer be claimed. Yet capital works deductions remain unaffected and make up the bulk of a depreciation claim on an investment property, regardless of whether it is new or second hand.

“Second-hand property owners can still claim depreciation on all qualifying capital works deductions that, on average, make up 85-90 per cent of the total claim. They can also claim all new plant and equipment assets they purchase for the property,” said Bradley Beer.

“During the 2019-2020 financial year, we found an average depreciation claim of more than \$8,300 for our clients’ properties.”

3. Overlooking deductions

Many depreciation deductions are easily missed by the untrained eye, especially on assets that have been installed by others. Substantial renovations where all, or substantially all, of a building is removed or replaced can hold significant deductions – even when completed by a previous owner.

“Some examples of substantial renovations include replacing foundations of the building, walls, floors, the roof or staircases,” said Bradley Beer. “These renovations can hold tens of thousands of dollars in deductions for the new owner.”

When an investor purchases a second-hand property immediately after a substantial renovation, the 2017 legislation changes don’t apply.

“This means the new owner can claim depreciation on all new plant and equipment assets and the capital works,” said Bradley Beer.

“Property investors should look to contact a specialist quantity surveyor for advice on what deductions are available for their individual circumstances,” concluded Bradley Beer.

Investors can request a free tax depreciation estimate from BMT at bmtqs.com.au/estimate to better understand the deductions that may be available for their property.

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BMT Tax Depreciation is Australia’s leading supplier of residential and commercial tax depreciation schedules.

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