Taxation Depreciation
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Frequently Asked Questions

Taxation Depreciation development by the ATO?

In the mid 1970's, the principal of this organisation, together with officers of the Australian Taxation Office setup the principles and methodology for Taxation Depreciation as well as the basis for the legislation associated with Depreciation.

Ever since, we have been working hand-in-hand with property investors to maximise their taxation benefits.

What is Taxation Depreciation?

Tax depreciation on a residential or commercial investment property is a deduction against assessable income allowing the owner to reduce the amount of taxation payable.

There are two types of allowances available an investor can claim:

- depreciation on Plant and Equipment, and
- depreciation on Building Allowance.

Capital Allowance (Division 43)

This deduction is based on the historical construction costs of the property which may include associated surveying, architectural and engineering fees. This does not include the land cost and site preparation.

Residential properties qualify if built after 18 July 1985 and commercial properties July 1982. There are specific rates which are applicable for different components of a building.

Plant and Equipment (Division 42)

Plant and equipment assets items such as ovens, dishwashers, carpet & blinds etc. have a higher depreciation rate than that of to the building rate. These rates generally are based on the effective lives of the Item of Plant and Equipment. These are determined by the ATO.

What are the benefits of a Depreciation Schedule?

Tax Depreciation is a legislative allowance that allows property investors to claim the annual decrease / decline in value of their Building, Plant and Equipment for tax purposes. It is a legitimate way to reduce your assessable income therefore reducing the tax payable and maximizing your cash flow.

Residential Investment properties are regarded as business expenses and therefore can be depreciated like any other business income producing asset.

In a recent Depreciation Assessment of an Investment Property, the following depreciation allowances were experienced based on the Construction Cost of $180.000:

Year Claimable	Amount
First Years	$8,000
Second Year	$6,900
Third Year	$6,200
Forth Year	$5,700
Fifth Year	$5,200
etc	

Are Web (including Apps) based Depreciation Calculators accurate?

These applications may be quite misleading and may lead to misrepresentation of the true expected values.

Unless you are fully aware of the rationale behind the hypothetical calculation, property investors should use the information with extreme caution. These values can be quite misleading. We recommend that the disclaimers be read in detail so it is understood the calculations limitations.

A recent comparison of a current project showed the theoretical calculation we out by at least 75%
We do not recommend entertaining such ball-park figures.

Recently, a competitor organisation produced an iPhone App which did such calculations. Comparisons showed that none of our recent projects compared with the values indicated by these applications.

Remember, that each and every property has its unique and inherent differences, despite on the surface they may appear to be identical; as such the level of Depreciation may be a world apart.

Some disclaimers state that such calculations are not endorsed by the Australian Taxation Office.

Who is qualified to assess the Taxation Depreciation of Buildings?

Please note the following Taxation Office Ruling.

Although this is a taxation office ruling, this message has wider implications and may have serious ramifications at law.

Australian Taxation Office Ruling TR97/25 *as amended states:*

> *"It is not always possible for the purchaser of a building to establish the actual cost of the building, ……In those circumstances, we accept a building cost estimate by an appropriately qualified person.*
>
> *We consider that an appropriately qualified person has expertise in the calculation of building construction costs and is likely to be accepted by a court or tribunal as an expert witness on the issue of calculating the cost of construction of the particular building.*
>
> *Unless they are otherwise qualified,:*
>
> - *Valuers,*
> - *Real Estate Agents,*
> - *Accountants and*
> - *Solicitors*
>
> *generally have neither the relevant qualifications nor experience to make such an estimate.*
>
> *Appropriately qualified people include a* ***Quantity Surveyor****, who has expertise in the relevant type of construction."*

Should you require further clarification, please do not hesitate to contact us.

Professional Mandatory Registration

Quantity Surveyors in Victoria are required to be registered as Building Practitioners with the Victorian Building Commission and are subject to professional disciples by statute.

As a registration pre-requisite Quantity Surveyors are required to:

- have sufficient Professional Indemnity Insurance and be a
- member of the Australian Institute of Quantity Surveyors who have there own professional ethic we have to abide by.

Furthermore, if Quantity Surveyors are engaged in any form of taxation advice, such as the preparation of Depreciation Schedules, we are require to be registered as a Taxation Practitioner. This registration has its strict disciplines and standard of ethics.

Our Quantity Surveyors are:

- Registered Building practitioners
- Registered Taxation Practitioners
- Members of the Australian Institute of Quantity Surveyors

Identification of Qualified Professionals

There are many unscrupulous persons who purport to be qualified, experience and have the appropriate statutory approval to undertake consultancies in the following professional disciplines:

- Taxation Depreciation Schedules
- Insurance Valuations
- Building Cost Estimates etc.

  Remember, it is in your best interest that you personally verify the qualification of the person undertaking the site visit, inspection and data gathering.

  In Victoria, the person undertaking the assignment, including on-site assessment, should have in their possession a:

  - Builders Registration Card (Quantity Surveying) with Photo Identification, issued by the Building Commission Victoria,

  as proof of their qualifications and level of approval. No other identification should be accepted.

Unscrupulous Organisations

There are unscrupulous organisations that use inexperienced and unqualified personnel undertaking site assessment. The subsequent reports are signed off by Quantity Surveyors without seeing the property, In our view this is most unethical.

These organisations are not Quantity Surveying firms, but other related organisations who engage a Quantity Surveyor who just signs off the reports.

What is the most Important Issue with the Depreciation?

1. The Fee for the Service you will pay OR
2. The amount you are entitled to received as a Taxation Deduction

Would you prefer to receive an additional $1,000 or more deduction by employing an experienced and highly qualified professional at a reasonable fee OR receive a mediocre Tax Depreciation report at a cheaper Fee.

The chances are, the cheaper the fee, the lesser quality report you will receive and the less Tax Deduction you will receive

Residence built before 1985 - do they qualify for Depreciation?

Generally, Rental Properties older than 1985 do not qualify for Taxation Depreciation. However, all properties regardless of age usually have some form of claim for both Building Allowance and Plant and Equipment (i.e. carpet, blinds, ovens etc).

Given there are grey areas with older building, let us decide whether or not your building qualifies. If it does not, we will not charge for the work

Renovated Properties - do they qualify for Depreciation?

Whether you or the previous owner undertook the renovations, you are entitled to claim depreciation. We are qualified to estimate the cost of the renovations. However, if you undertook the renovations you may need to produce the receipt for the cost.

How far back can you claim depreciation?

Should you had forgotten to claim depreciation for your investment property, you can still have the property assessed by us commencing as at the first lease date. Your accountant can amend your previous tax returns. It is best to discuss with your accountant how far back you can claim.