How to Get More Money Back at Tax Time with Depreciation Schedules

Depreciation schedules can maximise your cash return from investment properties and if you don't have one, you could be missing out on thousands of dollars in your tax return.

Property is a depreciating asset, which means it has a limited effective life and declines in value over time. The Australia Taxation Office (ATO) allows property investors to claim a deduction for the building and the internal fittings and fixtures.

To claim a deduction, the ATO requires a depreciation schedule from a qualified quantity surveyor. This report is tax deductable and can be used by your accountant every year, for the entire life of the asset. Unless you have renovated or made changes to the property – then you will need a new depreciation schedule.

Tax depreciation has become an important part of any property strategy, because it can determine whether or not the investment will produce a positive or negative cashflow after tax deductions.

Here are 3 ways depreciation schedules can get you more money back in tax.

1. New Property

New properties are able to claim deductions for the building and everything inside. The technical terms for these deductions are 'capital works' for the building structure and internal fixtures, and 'plant and equipment' for the removable assets located inside the building. The depreciation schedule will list deductions over 40 years, which is the maximum effective life of the property. New properties provide the highest amount in tax deductions, because everything is new and can be depreciated at the same rate.

2. Second-hand Property

Any purchase of a second-hand property after May 2017 is not able to claim deductions for 'plant and equipment'. This will mean a lower tax deduction than a new property, however any new fittings that are added to the property after purchase, are depreciated as new assets. This means any new appliances such as dishwashers or air conditioners, new roller blinds or carpets etc – can all be included in your depreciation schedule. Capital works can still be depreciated as normal, which includes the building structure and fixtures such as doors, bathroom vanity, toilet and kitchen sink.

3. Renovations

An investor who purchases a newly renovated property are able to claim depreciation for both capital works and plant and equipment. Likewise, an investor who completely renovates their second-hand property and holds onto the investment afterwards, can also claim for both. One thing to note however, the capital works deductions will be less than with a brand new property, because the building structure is older.

Renovators can also claim deductions with a 'scrapping schedule'. This is a write-off of any capital works items which still has remaining useful life, but are being replaced during renovation. It is best to get a deprecation schedule (renovation report) before renovation commences, to ensure you don't miss out on the maximum amount you can claim – it could add up to thousands in tax deductions.

Don't remain blissfully unaware of a depreciation schedule – you may be missing out on thousands of tax-free money! JR Prosperity Partners can help you discover how depreciation will affect your property investments. Let us show you how to get more money back at tax time! Contact us today on 1300 522 562.