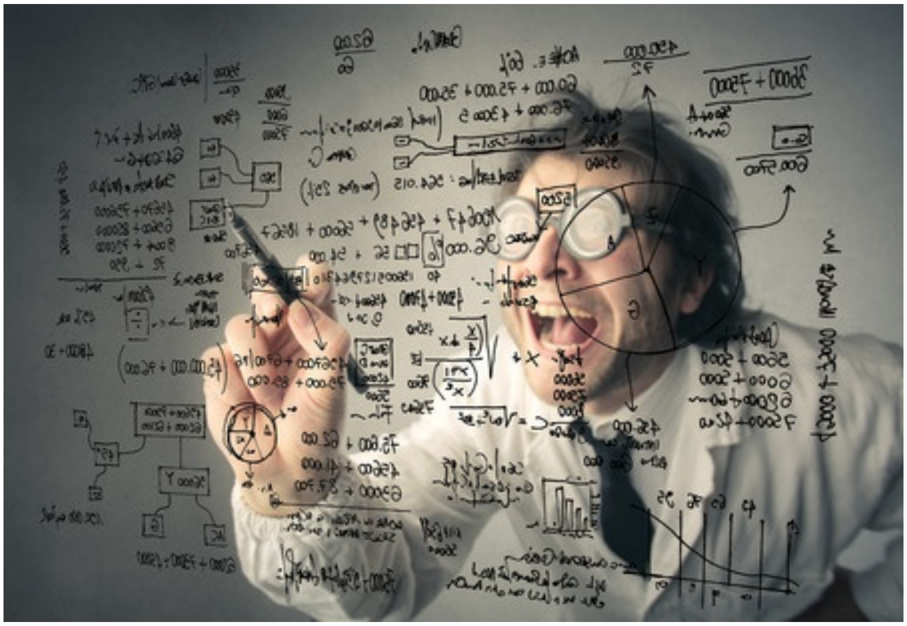

Do you need a Depreciation Schedule and Why?

What Properties Qualify for Building Depreciation

Properties built or renovated after 16th September 1987 will have some building depreciation left to claim.

To work out if it is worth it, make a rough guess just how much the building or renovation would have cost back when it was done and multiply that by 2.5%. That is the maximum tax deduction you are likely to get each year. Multiply that by your tax rate. For example it would be unusual for any house to have cost less than $60,000 to build say back in 1987 so at the very least you are likely to qualify for a $1,500 tax deduction if you purchase a depreciation schedule. That will probably lead to a $500 odd refund. So even just one year for a cheap building built after 16th September 1987 will cover the cost of the depreciation schedule. This might not be the case if it is just a renovation that happened after 16th September, 1987.

If you are buying the property to demolish you will not be entitled to scrap the remaining unexpired building depreciation, so don't bother with a report.

Plant and Equipment Depreciation

This includes carpet, stoves, air conditioners, hot water systems, blinds etc. Basically, items that can be removed from the building without being destroyed. No deduction is available unless you are the first owner of the plant and equipment. So you have either bought it yourself or bought a brand new house from a builder. Note if you do a renovation and the builder buys say the stove you are not considered the first owner, the builder is, so you will not qualify for depreciation. For this reason it is important that you pay for the plant and equipment in a renovation yourself. Even that isn't good enough if you are living there while you renovate. Then it is considered to have been used for private purposes, even if you have not turned it on. Therefore, does not qualify for depreciation.

Plant and equipment can be depreciated on a diminishing value method or prime cost method. For prime cost the deduction is the same each year over the effective life of an item. With diminishing value you get twice as much of the prime cost method amoount in the first year but then it reduces each year after that. Normally diminishing value is the way to go, get the big deduction up front unless you think your tax bracket will be higher in a following year.

When Should you Bother with a Depreciation Schedule

Certainly, on a brand new building if the builder can't give you the necessary information. With a brand new purchase you will be entitled to both building and plant and equipment depreciation. So as long as you are going to use the property as a rental it is worth the cost of a depreciation schedule.

When it comes to established homes the first step is to find out if they were built or renovated after 16th September, 1987. Maybe council will be able to tell you. Some water metres can at least tell you the date the water was connected. If you are satisfied it was built after 1987 then it is very likely worth the cost of a depreciation schedule. You only need the building costs not the plant and equipment break down so you may be able to negotiate a reduced price.

Any plant and equipment claimed for an established house would only be the items you have purchased yourself since it has become a rental. You can't use a quantity surveyors estimate you must use the actual cost because it is known. Just give the receipts to your Accountant who has the software to calculate the depreciation.

Whether it is worth getting a depreciation schedule for a post 1987 renovation depends on how significant the renovation was. For example a $20,000 renovation is only going to give you a deduction of $500 a year which is probably going to be a refund of $100 to $200, it will take you a few years just to recover the cost of the schedule.

The cost of a depreciation schedule is deductible in the year you obtain it so ideally get one done before the 30th June so you are ready for your tax return and get a quick benefit from the tax deduction for the cost of the schedule.

What if you have been Missing Out

You can get a depreciation schedule now and go back and amend some of your previous tax returns to include the depreciation you have missed out on. The minimum you can go back is 2 years after the date of your assessment notice. If you are a beneficiary of a trust or own an investment property with another person then you are entitled to amend you tax returns up to 4 years after the date of the assessment notice.

More info about amending https://bantacs.com.au/Jblog/amending-past-years-tax-returns/#more-141