

Domain INVESTMENT CHRIS TOLHURST INVESTMENT

Appreciate depreciation

Wear and tear happens — but that doesn't mean owners have to lose out.

BATHROOM tiles chip and crack, hot-water systems break down and carpet can acquire indelible stains.

Just a few signs of the wear and tear of everyday living that come with owning a house or apartment. But if maintenance issues are annoying for owner-occupiers, they can be doubly so for property investors.

The most valuable property losses are the ones that generate little or no cost for investors. Being able to claim tax deductions for the wear and tear on the building structure and for the plant and equipment in a property fits squarely into this category.

Yet according to a national quantity surveying firm, up to 80 per cent of investors don't claim the correct depreciation on their properties and are missing out on thousands of dollars in deductions each financial year.

"This is a staggering statistic when you consider how much extra cash flow can be obtained by a property investor at tax time," says Brad Beer, a director of the firm

BMT Tax Depreciation. "This deduction essentially lowers their tax bill."

With the end of the financial year only three weeks away, it's timely for investors to review their depreciation report if they have one, or to consider hiring a quantity surveyor to prepare a new one.

Chartered accountant and principal of MGI Melbourne Sue Prestney says many first-time investors have the potential to write off depreciation against their taxable income but haven't been given the necessary paperwork on depreciation allowances by the previous owner of their property.

"Often the new owner misses out altogether in claiming these deductions," Ms Prestney says. She adds that an investor can remedy the situation by commissioning their own report on a property's outstanding depreciation.

The Tax Office won't allow you to depreciate the walls and roofs of any building built before July 1985 (see box). But quantity surveyor Michael Sturgess, of Australian Cost



All properties will suffer from maintenance issues but these can be compensated for through tax deductions.

Planners, says with older buildings you can still generate significant claims for replacement kitchens and bathrooms, renovated living areas and recent additions.

It's wise to be very careful, though, when you are buying a new-build apartment.

Mr Beer says property developers often provide depreciation reports to potential buyers to assist with the sale. He says developer-provided reports can contain "guesses" by builders and accountants about values.

Tax — the fast facts

IF YOU own an investment apartment or house built since July 1985 the tax Office lets you claim a capital works allowance to depreciate the roof, walls and ceilings. Buildings built before mid-1985 cannot claim the capital works allowance but plant and equipment (such as carpets, lights, ceiling fans and new kitchens) in all residential dwellings can be depreciated over their effective lives.

Once a residential building is

completed, its capital structure will depreciate in the next 40 years at a rate of 2.5 per cent a year. An investor who owns a \$400,000, two-bedroom apartment, for example, can usually claim between \$8000 and \$15,000 in the first year of depreciation. If the total construction cost of the unit is \$200,000, which is common for new two-bedroom units, there will be a large amount of further depreciation to be claimed in the coming years.