

Depreciation Differences: Old vs. New Properties

BMT Tax Depreciation is often asked by its clients and referrers about the depreciation potential of older properties. Many investors assume their property isn't worth getting a depreciation report completed due to its age. While it is true that newer properties contain more deductions than old properties, it is always worth getting some advice about the depreciation potential of an old property.

Old Properties

Depreciation on the structure of a building is legislated by dates the construction was commenced. This may mean that a property may not be eligible to claim depreciation on the structure. However investors will still be able to make a claim on the fixtures and fittings within the building. All eligible assets are valued at the time of settlement with their effective lives assigned to each asset **regardless of their age**. Older properties that have had structural renovations are also eligible to claim depreciation on the work done, depending on the date of construction commencement.

New Properties

Owners of new investment properties are eligible to claim depreciation on the building structure and the fixtures and fittings in their property. The effective life of a building, for ATO purposes, is 40 years. This means a brand new property is able to claim the entire construction cost over the life of the property. Properties that are not brand new can claim the residual of the 40 years. For example, if an investment property is 5 years old the owner has 35 years left of deductions to claim.

Depreciation Differences

Older Property (Year of Construction: 1980)					
Purchase Price	Depreciation Year 1	Depreciation Year 2	Depreciation Year 3	Depreciation Year 4	Depreciation Year 5
\$450,000	\$8,754	\$6,926	\$5,003	\$3,860	\$3,215

Years 1 -5 Cumulative Depreciation = \$27,758

Older Property - Renovations (Year of Construction: 1980, Renovations completed 10 years ago)					
Purchase Price	Depreciation Year 1	Depreciation Year 2	Depreciation Year 3	Depreciation Year 4	Depreciation Year 5
\$450,000	\$11,140	\$9,318	\$7,395	\$6,252	\$5,607

Years 1 -5 Cumulative Depreciation = \$39,712

New Property (Year of Construction: 2010)					
Purchase Price	Depreciation Year 1	Depreciation Year 2	Depreciation Year 3	Depreciation Year 4	Depreciation Year 5
\$450,000	\$15,824	\$14,017	\$12,113	\$10,981	\$10,342

Years 1 -5 Cumulative Depreciation = \$63,277

Comparison	
Property	Years 1-5 Cumulative Depreciation
Older Property	\$27,758
Older Property - Renovations	\$39,712
New Property	\$63,277

All examples are based on the diminishing value method of depreciation.

Depreciation can mean the difference of thousands of dollars at tax time. Make sure you maximise your deductions with a tax depreciation specialist like BMT Tax Depreciation.

Article provided by BMT Tax Depreciation.

Bradley Beer (B. Con. Mgt) is a Director of BMT Tax Depreciation. Please contact 1300 728 726 or visit www.bmtqs.com.au for an Australia wide service.