

FAQ's



TAX DEPRECIATION SCHEDULE

*Maximise the return on your
residential investment property*

A Tax Depreciation Schedule is an essential tool for all residential property investors, commercial property owners and rural producers looking to maximise the benefits of owning an income-generating property.

If you don't have a tax depreciation schedule, you could be missing out on thousands of dollars each year in allowable depreciation.

Herron Todd White is ideally placed to provide an independent Tax Depreciation Schedule to ensure you have all the tools to maximise your return on your investment property.

The Income Tax Assessment Act 1997 allows owners of investment properties to claim annual deductions for depreciation on capital works, such as buildings and structural improvements, and capital allowances for items such as plant and equipment, carpet, blinds, hot water system, etc.

The cost of a Herron Todd White tax depreciation schedule is tax deductible and is usually recouped many times over in the first year.

Inspections are carried out on all properties and reports are prepared by trained and qualified Quantity Surveyors who are also Registered Tax Agents with the Tax Practitioners Board.

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SUMMARY OF FREQUENTLY ASKED QUESTIONS



1. [Why do I need a Tax Depreciation Schedule?](#)
2. [What is involved in preparing a Tax Depreciation Schedule?](#)
3. [What information do I need to provide?](#)
4. [Are your fees fully tax deductible?](#)
5. [What is the principle behind property depreciation?](#)
6. [Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?](#)
7. [How is claiming depreciation and Capital Works deductions on my rental property beneficial to my investment?](#)
8. [Can I use a Tax Depreciation Schedule as a Market Value?](#)
9. [I've owned the property for a few years now and never claimed depreciation?](#)
10. [Can I claim renovations completed by the previous owner?](#)
11. [Can I claim the renovations in my property if I didn't arrange them?](#)
12. [Main components of a Tax Depreciation Schedule](#)
13. [What Can I Claim?](#)
14. [How do we differentiate between repair works and Capital Works to my rental property?](#)
15. [Am I entitled to claim deductions on any items in Unit common areas?](#)
16. [How do you work out how old the building is?](#)
17. [If my property was built before 1987, is it too old?](#)
18. [My Accountant said it's not worth getting done.](#)
19. [My Accountant said I need one, but I'm not sure?](#)
20. [How does depreciation affect Capital Gains Tax?](#)
21. [When can depreciation allowances be claimed?](#)
22. [Do I have to do anything special at tax time each year?](#)
23. [Can I backdate my depreciation allowances claim?](#)
24. [Is your property adequately insured?](#)
25. [Have you recently bought, sold or inherited a investment property?](#)

FAQ's



Why do I need a Tax Depreciation Schedule?

If you own an income producing residential property then you should obtain a Tax Depreciation Schedule (TDS) if you wish to claim depreciation allowances. Schedules are prepared by qualified Quantity Surveying professionals to not only ensure that all possible deductions are identified, but also that ATO governing laws and requirements are met.

What is involved in preparing a TDS?

If you own an income producing residential property then you should obtain a Tax Depreciation Schedule if you wish to claim depreciation allowances. Schedules are prepared by qualified Quantity Surveying professionals to not only ensure that all possible deductions are identified, but also that ATO governing laws and requirements are met.

What is involved in preparing a TDS?

If you own an income producing residential property then you should obtain We would carry out a detailed site inspection of your property to identify all the Plant & Equipment and Capital Works items. From there, our Quantity Surveyor will prepare a Tax Depreciation Schedule which sets out the depreciation and deduction allowances for the Capital Works, Structural Improvements and Plant & Equipment items, including but not limited to, floor coverings, kitchen appliances, and hot water service. This information is incorporated into a full report which sets out the allowances for future years which you can then simply pass on to your accountant for preparation of your tax return.

What information do I need to provide?

Information we require to produce a Tax Depreciation Schedule includes the following:

1. Your settlement date;
2. Purchase price;
3. Any information pertaining to improvements or additions made to the property including dates and costs (where available and if known);
4. The date the property became income producing (tenancy date or if purchased as an investment property, then we will use the settlement date); and
5. Floor plans if available.

FAQ's



Are your fees fully tax deductible?

Yes, 100%.

What is the principle behind property depreciation?

To compensate the taxpayer for the reduction in value of items used in the production of taxable income, assessed as Capital Works, Structural Improvements and Plant & Equipment.

Deductions and depreciation may be claimed on any property, either new or old. To claim these allowances, the following conditions must be satisfied:

1. The property must be owned by the taxpayer; and
2. The property must be used for the purpose of producing assessable income, or be ready for use for that purpose.
3. Under the new legislation, existing Plant & Equipment items are depreciable under specific circumstances (refer - Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?)

Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?

The answer is, for the most part, YES, you are eligible to claim the Capital Works deductions in both scenarios. If construction of your residential property is post 1987, or if it is an older property and renovations have been carried out by you or a previous owner, you are still eligible to claim Capital Works deductions which are the estimated or actual costs of construction of the property. The deduction is 2.5% per annum for 40 years from the completion of construction.

For properties purchased post 9 May 2017, you are able to claim Plant and Equipment depreciation if:

- The property you purchased is new and you have not lived in it.
- If you have purchased Plant and Equipment items to be installed in the property and you have not used them for personal use.
- A company owns the property (not a SMSF or a Family Trust).

For properties purchased pre 9 May 2017, you are able to claim Plant and Equipment depreciation if:

- The property you purchased is new and you have not lived in it.
- If you have purchased Plant and Equipment items to be installed in the property and you have not used them for personal use.
- A company owns the property (not a SMSF or a Family Trust).

FAQ's



How is claiming depreciation and Capital Works deductions on my rental property beneficial to my investment?

Claiming depreciation and Capital Works deductions offsets your total taxable income, and reduces the tax you have to pay in today's dollars.

Can I use a Tax Depreciation Schedule as a Market Value?

No. A Market Value is a service that only a Registered Valuer can provide. Quantity Surveyors estimate construction costs as at the time of construction as well as estimating values for Plant & Equipment items.

I've owned the property for a few years now and never claimed depreciation?

Individuals can amend their previous two years' tax returns. So you may be able to claim up to three years of depreciation in the current financial year.

Can I claim renovations completed by the previous owner?

Yes. Anything in the property that is part of a previous renovation will be estimated by our Quantity Surveyors. For Capital Works deductions to qualify for the Division 43 construction write off allowance, renovations and improvements to the house must have commenced after 15 September 1987 and Structural Improvements must have commenced after 27 February 1992.

Plant & Equipment items that were included in renovations by a previous owner are depreciable under specific circumstances (refer - Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?)

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Can I claim the renovations in my property if I didn't arrange them?

Yes. Any improvement, extension or renovation to the house or land will be estimated by our Quantity Surveyor and deducted accordingly. If we cannot verify the date the improvement, extension or renovation was made, this date (or dates) will also be estimated by our Quantity Surveyor.

Main components of a Tax Depreciation Schedule

1. **Capital Works** (Division 43) (the bricks & mortar, this is the actual main structure);
2. **Structural Improvements** (Division 43) (this refers to external works such as pool, fencing, paving etc.); and
3. **Plant & Equipment** (Division 40) Typical Plant & Equipment items for a residential development, including but not limited to, carpets, curtains, air conditioners. Under the new legislation, existing Plant & Equipment items are depreciable under specific circumstances (refer - Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?)

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FAQ's



What Can I Claim?

Basically our Tax Depreciation Schedules are split into two sections:

1. **Capital Works deductions**

Capital Works are those building elements that are integral to the building structure i.e. walls, floors, roofs etc. Residential investment properties constructed after 15 September 1987 are eligible to claim 2.5% per annum of the construction cost for 40 years from the date construction was completed. Structural Improvements including external works such as pool, fencing, paving etc. must have commenced after 27 February 1992 to be eligible to claim 2.5% per annum of the construction cost for 40 years from the date construction was completed. The ATO stipulates that "an appropriately qualified person" (TR 97/25) must be engaged to calculate original building costs if accurate original costs are unavailable. As Quantity Surveyors and members of the Tax Practitioners Board, Herron Todd White is appropriately qualified as outlined by the ATO to compile Tax Depreciation Schedules. Note: Valuers, Accountants and Real Estate Agents are generally not appropriately qualified.

2. Plant & Equipment depreciation - Items of Plant & Equipment can be depreciated at an increased rate compared to the Capital Works deductions. There are many items identified by the ATO which can be categorised as Plant & Equipment, including but not limited to, carpet, curtains, whitegoods, and air-conditioners. Under the new legislation, existing Plant & Equipment items are depreciable under specific circumstances (refer - Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?)

How do we differentiate between repair works and Capital Works to my rental property?

The distinction is between repairs and improvements. Improvements are dealt with as Capital Works, whereas repairs are dealt with as expenses. Records should be kept for all maintenance or repair works carried out during the tenancy period. If required, these items can be checked by our Quantity Surveyors, and they will advise if the works are of repair or improvement nature.

Am I entitled to claim deductions on any items in Unit common areas?

Yes, depreciation allowances for common areas are apportioned according to unit entitlement. Capital Works deductions for common areas are apportioned according to unit entitlement.

FAQ's



Mandatory inspection of all properties especially the common areas in an apartment, townhouse development or high-rise block of units is carried out. Depreciable items in common areas, including but not limited to, fire hose reels, fire extinguisher, smoke detection & alarm system, pumps, pool/spa equipment and lifts. Under the new legislation, existing Plant & Equipment items are depreciable under specific circumstances (refer - Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?)

How do you work out how old the building is?

The age of the building can be determined by contacting the Local Council by phone to request dates pertaining to the original application approval or the Occupancy Certificate, and final inspection. If you are unable to obtain this information from Council over the phone, please note this in the Instruction Form, and our Quantity Surveyors can estimate the age of the property.

If my property was built before 1987, is it too old?

If your property has been renovated or improved (even prior to purchase) and those renovations or improvements to the building were carried after 15 September 1987, then you can claim Capital Works deductions for these works.

External improvements carried out after 27 February 1992 is able to be claimed as Capital Works deductions.

Under the new legislation, existing Plant & Equipment items are depreciable under specific circumstances (refer - Is it still worth completing a Tax Depreciation Schedule if my property sale date is after 9 May 2017 or if I am renting out my property for the first time?)

My Accountant said it's not worth getting done.

If in doubt about whether to carry out a Tax Depreciation Schedule, please contact your local Herron Todd White office and they will direct your query to one of our Quantity Surveyors.

FAQ's



My Accountant said I need one, but I'm not sure?

By getting a Tax Depreciation Schedule completed you are able to access deductions that reduce your taxable income. The Tax Depreciation Schedule fee is 100% tax deductible. If in doubt about whether to carry out a Tax Depreciation Schedule please contact your local Herron Todd White office and they will direct your query to one of our Quantity Surveyors.

How does depreciation affect Capital Gains Tax?

Claiming Capital Works deductions increases your Capital Gains Tax liability upon the sale of your property. You will be required to add the Capital Works deductions to your capital gain when and if you decide to sell your investment.

The tax benefit from claiming Capital Works deductions is likely to be far more useful up front than not having it at all. Claiming depreciation on Plant & Equipment items does not have any effect on the capital gain.

When can depreciation allowances be claimed?

Depreciation allowances can be claimed once a property becomes income producing, i.e. deriving an income from tenancy. Depreciation allowances are bound by ATO tax rulings and legislation, with specific key dates playing a significant part in the preparation of a Tax Depreciation Schedule. Reference to the ATO legislation and tax rulings for depreciation is governed by the Income Tax Assessment Act 1997.

Do I have to do anything special at tax time each year?

If you have a Tax Depreciation Schedule, you simply take it to your Accountant. The schedule remains valid for the period covered in the report or until you sell the property.

Can I backdate my depreciation allowances claim?

Yes, a Tax Depreciation Schedule can be prepared to allow an individual to easily claim Capital Works deductions and Plant & Equipment depreciation from previous years.

FAQ's



Insurance Valuations

IS YOUR PROPERTY ADEQUATELY INSURED?

Reduce the risk with a Herron Todd White replacement cost estimate report (RCE). Ensure your property's replacement value is correctly assessed with an RCE report prepared by our qualified Quantity Surveyors.

The assessment is used by your building's insurer to calculate the premium for defined risks and to set the limit of indemnity on which the insurance is based.

The sum insured should include all costs that would be incurred in replacing the building:

- ▶ Cost of making the damaged building safe,
- ▶ Demolition and site clearance
- ▶ Estimated cost of constructing a similar building on the same site
- ▶ Professional and authorities fees relating to the new building
- ▶ Allowance for escalation in costs up to "disaster date"

Ask us about combining your replacement cost estimate report with a tax depreciation schedule or market valuation for a reduced fee.

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FAQ's



Capital Gain Tax Valuations

HAVE YOU RECENTLY SOLD
AN INVESTMENT PROPERTY;

RENTED OUT YOUR FORMER
PRINCIPAL PLACE OF RESIDENCE;

OR **INHERITED** A PROPERTY?

Capital gains tax (CGT) is the tax payable on capital gains from the sale of an investment property acquired after September 19, 1985. You may be liable for CGT if your capital gains exceed your capital losses.

Determining market value of the property is essential in calculating CGT.

Only professionally qualified property valuers can provide this market valuation.

Renting out your former principal place of residence will trigger a CGT event, so it is advisable to obtain a market valuation at the time the property is first made available for rent as an investment property.

Herron Todd White can provide a combined service which includes a CGT valuation and a tax depreciation schedule. One inspection; two reports; one competitive fee. Gifting a property also triggers a CGT event.

Herron Todd White is ideally placed to undertake property valuations for capital gains tax purposes whether it is a current market valuation required or a retrospective market valuation.

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