e-book

The Secrets of Depreciation that every property investor should know

depreciator®

Tax Depreciation Schedule Specialists

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Every year, millions and millions of dollars are available in tax deductions for depreciation that property investors don't claim. That might make the ATO happy, but isn't it a shame so many taxpayers leave so much money on the table?

With this short eBook, we intend to answer some of the questions we get asked most about depreciation. We hope to dispel a few misconceptions, too.

And yes, 'secrets' might have been pushing it a bit, but it got you to read this far. Although depreciation is just one part of the property investor's overall tax picture, it's a significant part and we happen to know an awful lot about it – so should you.

This eBook will be of interest to all property investors, and even the odd accountant might learn something useful. It's not our intention for this to be an overly technical thing – we want it to be practical. To that end, we are unapologetically going to use terms that ordinary investors like us will understand.

We particularly want to point out some traps that people fall into, and highlight some interesting opportunities that people miss out on.

One of the first traps people fall into is shopping around for the cheapest Depreciation Schedule they can find. Yep, I know, we have a vested interest in keeping prices sensible, but hear us out. When you commission, pay for, and use a Depreciation Schedule to complete your tax return, you are accepting responsibility for the accuracy of it. The ATO write in one of their publications:

> **'It is your responsibility to lodge a tax return that is signed, complete and correct. Even if someone else – including a tax agent – helps you prepare your tax return and any related schedules, you are still legally responsible for the accuracy of your information.'**

So if your Depreciation Schedule is wrong, that's your problem. Even though you might not be aware of any mistakes. So how do you decide on a Depreciation Schedule provider?

Here are a few pointers: How to choose a Quantity Surveyor.

You won't see 'price' on the list of things to look for. You get what you pay for – enough said. And as for those cheap online DIY Depreciation Schedule things that pop up every tax season, one of these days the ATO is hopefully going to have a close look at them and see in them the potential for errors that we have spotted. (We're actually hoping this eBook lobs onto the desktop of someone at the ATO.) Thankfully, the new Tax Agent Services regime will take care of the under qualified providers and those taking short-cuts. Considering the cost of a Depreciation Schedule is 100% deductible, saving a few dollars and possibly taking a few risks doesn't really make sense. Remember also that our Schedules run for 20 years, so this isn't something you have to do every year. Okay, that really is enough said on price.

Just on the new Tax Agent Services regime mentioned above. From March 1, 2010, all people who prepare Tax Depreciation Schedules need to be registered as Tax Agents. And not all of the people currently doing them will make the grade. So one quick way to weed out the dodgy suppliers is to ask if they are a Tax Agent.

I'm afraid we do things the old fashioned way, using people with the qualifications best recognized by the ATO - we're reluctant to take shortcuts with your tax affairs.

To make this eBook practical, there are links to relevant ATO material. The ATO are really pretty generous when it comes to depreciation and they are becoming increasingly clear in regards to the rules, which is great for us. (It's probably not so great for the non compliant providers out there as their mistakes are easier to spot.)

One particularly good ATO publication is the Rental Properties Guide. This covers many things including depreciation and is written very clearly. You can download it, or order a hard copy. This publication is updated every year.

While we're on the ATO, there are some suppliers out there who say their Depreciation Schedules are 'ATO approved'. This is nonsense. The ATO don't go around approving the products and services provided by businesses, so don't fall for this line.

If you have questions about depreciation that are not answered in the following, or if you want to ask something specific about your property, please call Depreciator on **1300 66 00 33** or email ebook@depreciator.com.au

The great thing about an eBook is that it can be updated – we fully expect there will be things that people want clarified as this is our first attempt at this sort of thing.

None of the following constitutes 'advice'. We always recommend people talk to their accountant about their specific situation.

We'll start with the more general things first, and then get more complicated. And though we do commercial property as well as residential, this eBook has a residential skew. Remember, though, that all of this only applies to income producing property – you can't depreciate your own home.

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1. What is Depreciation?

Very briefly, depreciation is the decrease in value of an item over time. Think of the tax deduction for depreciation as compensation for wear and tear. Buildings being rented out suffer wear and tear, so do the Assets (fixtures and fittings or chattels). Depreciation is a tax deduction. Other tax deductions claimed by property investors include: council/water rates, property manager fees, interest on loans etc. Of all these property related tax deductions, depreciation is often the largest. Depending on the property, it can easily exceed $10,000 in a single year. Even older properties usually have something worth claiming - it's always worth a phone call to find out if a Depreciation Schedule is viable.

2. What is a Tax Depreciation Schedule?

This is simply a document (ideally prepared by an appropriately qualified person) that sets out how much depreciation you can claim on your property every year from when it was first available to rent. The term 'Tax Depreciation Schedule' is often shortened to just 'Depreciation Schedule'. Sometimes people refer to them as a 'Quantity Surveyor Report'. Or a 'Capital Allowances Schedule'. Or sometimes people just call up and say, 'my accountant said I need a building tax report thingy'.

There is no set format for these documents. Some of them are so complicated, even we can't make sense of them. We're reluctant to blow our own trumpet too much, but we're writing this thing, so you might cut us some slack. Accountants love the format of our Schedule because they don't have to do any further calculations (we provide a written-down value of Assets on the first available to let date). That's why they recommend us to their clients. And clients love our Schedules because they're not filled with jargon. For a sample Schedule, please email sample

3. How is a Depreciation Schedule different from a valuation?

A valuation is an estimate of what a property would fetch if it was sold i.e. it's a market value. A Depreciation Schedule is completely different. To put together a Depreciation Schedule, a Quantity Surveyor needs to work out what a property cost

to build when it was built. That is the starting point. Then the QS needs to put a value on the individual Assets (fixtures and fittings) in the property. You'll find a list of the common ones at the back of this publication:
Rental Properties 2009

There are valuation companies who are now offering Depreciation Schedules. The ATO states specifically that valuers do not have the requisite qualifications to estimate construction costs, so presumably valuers who offer Depreciation Schedules are collecting data that is then sent to a quantity surveyor (hopefully) for them to cobble something together. We think that it is better if the person who actually visits the property is the person who costs it up. The Australian Institute of Quantity Surveyors (AIQS) agrees.

4. How much depreciation will I get?

This is probably the question we get asked more than any other. And we completely understand that it is the thing people most want to know. Thankfully, most people in turn understand when we tell them that it is very hard to estimate anything without seeing the property. As a rule, newer properties tend to have more depreciation. The amount of depreciation can be anywhere from $1,000 to $15,000 in the first year, depending on the property. We do have an estimator tool that people can use to get an idea of the depreciation a particular property might produce. It's a pay per use tool, but we deduct the fee from the Depreciation Schedule price if people get a full Depreciation Schedule on that property down the track.

We also have a guarantee:

> **'We guarantee that the depreciation in the first full year will be more than our fee, or your Schedule is free.'**

Having said that, if we don't think it's worth you paying us to do a Schedule, we'll tell you up front. We have a few different prices to suit different types of properties, too – older properties are cheaper.

5. Who can prepare a Depreciation Schedule?

Preparing the document is the easy part. Working out the construction cost of the building and putting prices on the Assets is harder. According to the ATO, Quantity Surveyors are the people most qualified to estimate the historical construction cost of a building. Estimators are qualified, too. As are some builders and even some architects. Accountants are NOT qualified to estimate construction costs (and the ATO has made this increasingly clear over the years but some still aren't aware of this). The ATO periodically ask people who claim depreciation how they arrived at the costs. If you say you engaged a quantity surveyor, you should be okay – unless perhaps it's one of those dodgy ones. If you say your accountant had a stab at the construction cost, you can expect a few more questions.

Of course, if the actual construction costs are known e.g. in the case of a new build, they must be used.

Note that many quantity surveyors don't do Depreciation Schedules. And some do them reluctantly, and poorly. So be careful when choosing a quantity surveyor. Make sure especially that they have PI insurance.

6. How does a QS prepare a Depreciation Schedule?

If the actual cost of the building and Assets (inclusions) is known, then the ATO want them to be used. In the case of brand new houses, there is often a building contract available.

In most cases, actual costs are not available. If you buy a six year old house, you're not going to be able to get the build cost. In this instance, the ATO will allow a 'recognised professional' to estimate the historical cost. This ideally involves a Quantity Surveyor visiting the property. The QS will also value the Assets (though it requires no particular expertise to value, say, a stove and taxpayers can do that themselves).

Some companies cut costs by sending data collectors to the property and not an actual QS. We would rather the person who visits the property be the one who does the costing. (When I visit my accountant, I want to talk to my accountant and not someone with no qualifications asking me questions off a sheet.)

7. How long does a Depreciation Schedule run for?

There is no set length. Some run for 1 year. And at the other end of the scale are the ones that run for 40 years. We've even seen Llifetime Schedules', which always makes us smile. Once the Assets (fixtures and fittings) are written off in the early years, the amount claimable in subsequent years will be the same each year. So a 'Lifetime Schedule' is just a marketing gimmick (and a waste of paper). And of course, if you have to make changes to the property, like replace the hot water unit, your Schedule needs to be updated anyway. Our Schedules run for 20 years, but I guarantee nobody will even use one for that long. And when our clients do need to add the odd item, we generally update their Schedules free of charge.

8. When should I get a Depreciation Schedule?

Obviously, you can't do much till you settle and have the keys.

The best time is in the summer when we are quiet. Our Quantity Surveyors are more flexible in the quiet season and can better fit in with tenants because in most cases they are going to have to visit the property. Of course, if the property is vacant, that's even better.

We know that it is tempting to wait till as close to tax time as possible. But the worst time to think about it is when you have booked an appointment with your accountant and need the Schedule in a hurry. That is guaranteed to be the week your tenant is away.

You will also need your Depreciation Schedule if you plan to do any forward tax planning and perhaps vary your tax – talk to your accountant about this.

9. How do I update my Depreciation Schedule?

As mentioned above, when something is done to a property (apart from repairs) your Depreciation Schedule will need to be updated. When it is only a couple of items, we do this free – and our clients love this.

If there are more substantial changes made, we have a facility called Self Assist on our site where our clients can go in and amend their own Depreciation Schedule – provided of course it is a Schedule we produced initially. There is a fee for Self Assist - $49.50. And a QS will check the revised Schedule before we send it to you.

10. Can Depreciation Schedules be backdated?

Yes, we do this all the time. More than half the Schedules we do are backdated. And if, after we have done your Schedule you (and your accountant) decide to kick it off on a later date, it's easy for us to change and reissue it – no charge, of course.

11. Are Depreciation Schedules transferable?

Yes. A Depreciation Schedule is something that pertains to a property, rather than a person. That is why providing them does not really constitute 'advice'. Our Depreciation Schedules don't even have a name on them, just an address. If you are selling a property, having something that tells a prospective buyer how much depreciation they will be able to claim if they rent the property out, will be a good selling tool.

On the flip side, if you purchase a property and are offered a Depreciation Schedule, accept it gratefully because it will be a good starting point for you. Many of the Assets will have been written-off, so you will want to get them recalibrated, but that's not a problem (assuming your contract of sale does not mention the written-down value of Assets).

As an aside, there is actually an ATO requirement that if the construction cost of a property is known by the vendor, it should be passed on to the purchaser. So if you buy a new property, it is worthwhile pressing for this as it will save you money when you need a Depreciation Schedule.

12. Is my property too old?

No. That's the short answer. People who sell new properties like you to think that only new properties can be depreciated, but that's not the case. There is depreciation that can be claimed in any property, but naturally the newer the property, the greater the deductions

You can break depreciation down into two major chunks: the building, and the inclusions (or Depreciating Assets).

Let's look at the building first.

13. What is the Special Building Write-Off?

This is a term for the depreciation claimable on a building, as opposed to the Assets. Another term for this is Division 43 (and yet another one is Capital Works). The building consists of professional fees relevant to the build (architect, council etc) and the building itself. So that's the floor, walls, windows, doors, ceilings and roof. It includes the plumbing, wiring, kitchen and bathroom fitouts etc. Generally, anything that will last a long time with fair use is 'building'.

Residential buildings that commenced construction after July 1985 can be written-off under the Special Building Write-Off.

Renovations to buildings of any age if carried out after this date can be written-off, too.

Between July 1985 and September 1987, the rate was 4% (x 25 years). After September 87, it dropped back to 2.5% (x 40 years).

Dates and Rates for Capital Works

Property Use/Date	Hotels, Motels & Guest Houses	Manufacturing	Other Commercial	Residential	Structural Improvements
Today to 27th Feb 1992	4%	4%	2.5%	2.5%	2.5%
26th Feb 1992 16th Sep 1987	2.5%	2.5%	2.5%	2.5%	
15th Sep 1987 18th Jul 1985	4%	4%	4%	4%	
17th Jul 1985 22nd Aug 1984	4%	4%	4%		
21st Aug 1984 20th Jul 1982	2.5%	2.5%	2.5%		
19th Jul 1982 21st Aug 1979	2.5%				

A lot of investors look for properties where construction started between those dates to take advantage of the 4% window, but this runs out shortly. A 1986 build, for example, has very little depreciation on the building left. A 1988 build (2.5%) has much more depreciation left than a 1986 build.

By giving buildings a depreciation rate of 2.5%, that means the ATO believe they have an Effective Life (ATO term) of 40 years i.e. 2.5% x 40 = 100%.

The term Effective Life just means how long the ATO think the item will last for without requiring significant attention.

It is difficult at times establishing the age of a property. Your first call should be to the local council. As you are their client i.e. ratepayer, they will be more inclined to give you a date than they will a third party. If the council can't help (or if they want to charge you) sometimes the local electricity or water provider will have a date when services were first connected to the property. Or there may be a date in the meter box. You could even see if a neighbour or previous owner knows.

14. What about renovations?

Yep, they are depreciable. The ATO term would be Capital Improvements. The same rates and dates apply as above for the Special Building Write-Off.

So if you own a property of any age and you renovate (or improve) it, the cost can be claimed through depreciation. And you will have the costs of the renovation.

But let's say you buy a property that a previous owner has renovated. Can you claim those renovations? Yep. Even thought the original property was really old? Yep. Even though you didn't pay for the renovations? Yep. Their renovations would have been factored into the purchase price, so in a way you did pay for them when you bought the property.

You will of course not know what a previous owner paid to have those renovations done. That's why you will call us. One of our Quantity Surveyors will work that out on a site visit. We may need your assistance with establishing the date of the renovations – the previous owner may help. But if you have no luck with that, our QSs can generally determine the date based on the fitout.

15. Is the Special Building Write-off for managed apartments 4%?

No, it isn't. But the people who sell serviced and holiday apartments still tell people this is the case. The 4% rate applies to Short Term Traveler Accommodation. Now, it is logical to assume that a serviced apartment or a holiday apartment falls under this category. Sadly, it doesn't. The test is whether someone could hypothetically live in the apartment. If it has bedrooms, a kitchen, bathroom etc it is not something that is specifically built for short term travelers. The fact that the complex has on-site managers, cleaners and a restaurant is irrelevant. The fact that nobody ever stays there longer than a week is irrelevant. The ATO have an Interpretative Decision on this. Using an apartment in the '4% manner'

This sentence probably best sums it up:

> **This means that an apartment will always be treated as an apartment if it possesses the inherent character of an apartment, even though the broader accommodation facility of which it is a part provides substantially similar facilities and services as a hotel.**

Of course, if you happen to own 10 apartments in such a building, it seems you'd be fine.

This is a very easy one for the ATO to catch people out on.

ATO:	'We notice you are claiming 4% on the building. Tell us about the place.'
Taxpayer:	'Oh, it's lovely. Apartment on the beach. Pool, gym, restaurant….'
ATO:	'Apartment?'
Taxpayer:	Yep. It's a beauty. Balconies off every room…
ATO:	'Kitchen?
Taxpayer:	'Oh, yes. Great kitchen. Better than my one at home. Stainless steel appliances, one of those natty fridges that makes ice cubes…'
ATO:	'Oh dear.'

16. What are Depreciating Assets?

This is the ATO's term. Most people call them 'fixtures and fittings'. On sales contracts in some states, they are often still called 'goods and chattels'.

Broadly speaking, Assets are things that will wear out sooner than the building with fair use e.g. carpet won't last as long as a tiled floor. The ATO have a huge list of Assets, but the average rental property has perhaps a dozen: kitchen appliances, hot water unit, carpet etc.

The ATO have an Effective Life for every Asset, just as they do for buildings. The Effective Life for an Asset is the ATO's estimate of how long that Asset will last. Carpet, for example, has an Effective Life of 10 years, while floating floors have a Life of 15 years depending on when they were purchased. The Effective Life determines how quickly an item can be written-off (but the Low Value Pool complicate things, so keep reading).

There is an ATO publication on Depreciating Assets:
[Guide to Depreciating Assets]

It covers all business Assets i.e. not just those relevant to property. And it is huge, so be warned – publications aimed specifically at property investors are much easier to read because the ATO know they tend to be used by mums and dads.

This is where you will find the complete Effective Lives tables for Assets (it's a big document and takes a while to download):
[Effective Life of Depreciating Assets]

You need to scroll down to page 120 for the ones that relate to residential property.

In the back of the ATO Rental Properties guide there is a much more useful list for residential property investors:
[Rental Property Assets]

17. How quickly can Assets be written-off?

This next bit is tricky.

So buildings can be written-off at either 2.5% or 4% per year depending on when they were built. That's not the tricky bit.

Assets are harder because they have different Effective Lives. And because the date the Assets were acquired dictates what effective life should be applied because the ATO changes these things occasionally. And because the value of the Asset can dictate how it is treated.

Assets valued at under $300 can be written off in full in the year they are purchased. Assets over $300 are depreciated.

Carpet has an Effective Life of 10 years. So using the Prime Cost method (more about that next) it depreciates at 10% per year.

100% divided by 10 years = 10% per annum.

Floating timber floor if acquired recently has an Effective Life of 15 years, so it depreciates at 6.67% per year.

100% divided by 15 years = 6.67% per annum

And then there is the Diminishing Value Method – the favoured one for investors.

And so it goes. We could write a whole book just on Effective Lives. And not just a little eBook. (And boy, wouldn't that be a boring book).

18. How do the Prime Cost and Diminishing Value methods differ?

There are two methods you can use to Depreciate Assets: Prime Cost and Diminishing Value. Depreciation Schedules should present both these methods. It's up to you and your accountant to choose which method you use. And once you start with one of them, you can't swap to the other. All Depreciation Schedules should contain both methods, because only providing one is a bit like giving advice. And if you get a Schedule with only one method, you might have to pay your accountant to do some calculating. If you're in a quandary about which method to go with, consider the fact that very few investors use the Prime Cost method, largely because it is slower. Investors who use this method might choose it because it spreads their deductions evenly over a longer period and they may have no need of accelerated depreciation early.

The **Prime Cost** method is more simple to explain, though. As mentioned above, carpet, with an Effective Life of 10 years depreciates at 10% per year.

So $3,000 worth of carpet will depreciate at $300 per year for ten years.

Prime Cost Method

The 'Prime Cost' method of depreciation can be defined as "depreciating items at a constant rate every year" derived from the initial value of an asset at the time eligible for depreciation.

For example: If a carpet is valued at $5,000 when the property was first available for lease and the effective life assigned by the Tax Commissioner is 10 years, then you will be entitled to claim $500 every year for 10 years.

100 ÷ 10 years = 10%.

The 10% rate is then applied to the $5,000 value to result in a $500 depreciation amount every year for carpet.

Year 1	Year 2	Year 3	Year 4	Year 5
$500.00	$500.00	$500.00	$500.00	$500.00

With the **Diminishing Value** method, there is more depreciation claimed in the early years. We'll use carpet again as an example because with an Effective Life of 10 years it's the easiest to explain.

The DV rate was increased on July 1, 2006. To work out the DV depreciation rate for an Asset acquired after this date, you take 200 and divide it by the Asset's Effective Life. So for carpet, 200 divided by 10 = 20%. (Prior to this date, to calculate the DV 150 was the starting point).

Diminishing Value Method

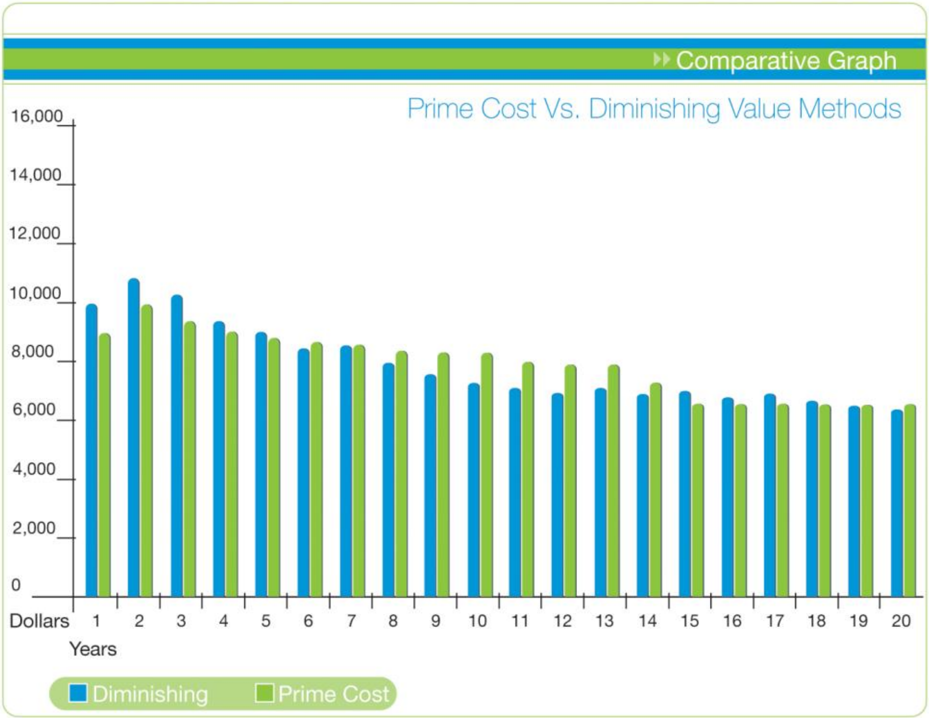
The 'Diminishing Value' method of Depreciation is the most popular with investors as the percentage rate in the beginning phase of Depreciation is greater than the prime cost method for the same period. The percentage rates then scale in line with the total depreciation value of the item for the remaining depreciation period.

For example: The same carpet would have a slightly different percentage rate applied. 200 is divided by the effective life and then the rate is applied to the previous year's adjusted value.

200 ÷ 10 years = 20%

Year 1	Year 2	Year 3	Year 4	Year 5
$1000.00	$800.00	$640.00	$512.00	$409.60

You can see from the following graph pulled from one of our Depreciation Schedules how the two methods compare.



Then just to complicate things even more, there is a thing called the Low Value Pool that allows you to write off Assets more quickly.

19. How does the Low Value Pool work?

This is an optional thing that enables you to depreciate Assets more quickly. Any Asset with an initial value between $300 and $1,000 may be put into the Pool. In the first part year, the Pool depreciates at 18.75%. That first part year could include as many 364 days, or as few as 1 one day. The next year, and subsequent years, the Pool rate is 37.5%. The Pool is depreciated using the **Diminishing Value** method. Now, there are a couple of twists to the Low Value Pool:

- Once an item enters the Pool, it stays in the pool even if the item gets tossed out. So if you have, say, an oven in your Pool and you have to replace it, the original one stays in the Pool and keeps depreciating.
- For the above reason, if you are intending to renovate a property you have just purchased in the near future, it may be better to NOT use the pool.
- Assets can enter the Pool when their value falls below $1,000. So if you have some carpet that starts off at $1,900, when its value falls below $1,000 it can enter the Pool and get depreciated at 37.5%.
- It is possible to use the Pool if you have opted for the Prime Cost method. The difference with this Pool is that the only items that can be in it are those that were there from the start of the Depreciation Schedule. (Not many people know this one.)

Excel can't really accommodate the twists and turns of the Low Value Pool, which is why many Depreciation Schedule providers muck it up. We built our own software.

20. What things can NOT be depreciated?

Depreciation relates to wear and tear on objects: buildings, stove, carpet etc. Fees that relate to construction of the property can be included in the build cost and depreciated. Typically, these would be council permits, building/development applications, architect/engineer fees and project management fees. There would be more, but we're sure you get the idea.

The costs that CAN'T be depreciated are ones that relate more to land or titles e.g. subdivision costs and legal fees. Your accountant will advise you on how these can be claimed.

Landscaping is a bit of a grey area.' Hard landscaping' e.g. paths, retaining walls, fences, pergolas etc are structural, so there is no problem there. 'Soft landscaping' e.g. grass, plants, soil etc can't be depreciated. The ATO don't see them as Assets with an Effective Life because grass and plants can die, dirt can blow away. It is as simple as that. In the case of a new build, though, it could be argued that the landscaping in its entirety is part of establishing the ‘initial rental setting’.

21. What if more than one person owns the property?

You just split the depreciation claim as you would split all other deductions. So if there are two of you and you each own 50% of the property, it’s a 50/50 split on the building write-off.

The Assets are trickier.

Let’s say the stove in the property is worth $500 and you own the property 50/50 with someone else. Ordinarily, it would end up in the Low Value Pool but because it is jointly owned you each own a $250 stove. Because Assets valued under $300 can be written-off in full in the first year, you each write-off that stove.

Then there are Assets that might be worth over $1,000, an air con worth, say, $1,900. When this is split 50/50, you each own a $950 air con and it can go into the Low Value Pool.

Of course, not all splits are 50/50.

And there have been times when we have done a 50% Schedule and a client’s accountant has then split everything again.

So we generally assume 100% ownership unless specifically requested to vary this. And then we make sure we tell the accountant that we have already done this.

22. What if I rent out part of my property?

In this case, you will presumably be claiming a percentage of your council rates, interest payment etc as deductions, so you will treat depreciation similarly. You need to discuss this with your accountant, though, and you need to make sure you understand the Capital Gains Tax implications.

23. How much does a Depreciation Schedule cost?

It depends. Don't you hate that answer? The deciding factors will be the location, age of the property, and the amount of information you have on the property.

We have a range of prices and will work out the best option for you. For an unrenovated, pre-85 built property, it may not be worth you paying somebody to inspect. But we have a solution those cases. In a quick phone call (**1300 66 00 33**), anybody at Depreciator can work out the best way to tackle your job and give you a price.

24. How do I book a Schedule?

Glad you asked. This is easy. You can send us an online enquiry, or just give us a call on **1300 66 00 33**. We will work out the most economical option for you.

The next step is we open a job in our system and send you a link. There are half a dozen questions in the link and when you fill them it automatically populates our system.

25. How long does it take to prepare a Depreciation Schedule?

The only thing that really holds us up is tenants. Most are very cooperative, but occasionally we have access issues. When this happens, we let clients know. We generally quote a 2-3 week turnaround from when a job is booked in, but many jobs we turn around more quickly than this. We've even done some in the same day – these are the ones where a client calls up and they are in the property cleaning it with tenants due to move in the next day. We jump on these ones.

Naturally, tax season is our busy time. Don't leave it till then to organize a Depreciation Schedule.

26. What if I have questions after I get my Depreciation Schedule?

Many people do, so don't panic. Often it's the first time they have ever seen a

Depreciation Schedule. We have made our format as client (and accountant) friendly as possible, but if you have questions, a quick phone call is generally all it takes to clear them up.

27. Do the ATO recognize 'Scrapping Schedules'?

This is a term that is getting bandied around a fair bit lately. It is not an ATO term – probably one dreamed up by a QS company for marketing purposes. Essentially, it refers to the opportunity of doing a reno and claiming the value of items that are tossed out. Typically these items include floor coverings, stove, curtains/blinds etc. The ATO refer to this as 'disposal of Assets'. There are a few groups around actively promoting Scrapping Schedules and telling people how great it is to be able to buy a property, toss a pile of stuff out straightaway, claim the value of it as a deduction, and then start renting the place out. It has always sounded a bit aggressive to us, so we got a Private Ruling on it. The ATO's contention is that the place needs to have been rented out for a while before trying this. The ATO aren't specific about how long this should be, but be sensible. Now, a Private Ruling only applies to the person who made the application. But when the ATO need to consider this issue in, say, an audit, that Private Ruling will be the first thing they look at.

28. How do Repairs and Improvements differ?

This is where lots of people get caught out – and it's very easy for the ATO to check on this. To claim a deduction for repairs, the damage must have been done while you were renting the place out. The ATO's definition of repairs is essentially restoring something to the condition it was in when you bought it. If you buy a property for investment purposes and it needs painting, new kitchen benches etc before renting it out, you cannot claim any of this work as repairs. That's because you are 'improving' the property. The ATO call these 'initial repairs'. Yes, you can depreciate the improvements.

If you put in a claim for several thousand dollars worth of repairs not long after buying a property, you are really saying that your tenants did that much damage while they were living there. So it would be wise to have some photos as evidence.

There is some very clear ATO material on repairs. This first one is very general:
[Rental properties - claiming repairs and maintenance]

Then there is a bunch of Private Rulings on very specific cases involving initial repairs. Here are just some of them:
[Initial Repairs]

As stated previously, a Private Ruling only applies to the person who put in the request for the Ruling, but it is an indication of the ATO's perspective.

The other thing to be careful of with repairs is that you not replace an entire item. If you do that, it is deemed an improvement. Let's say you have owned a rental property for some years and the fence is partly falling over. If you replace the whole fence, it is an improvement and you would have to depreciate it – at 2.5%pa. If you replace part of the fence, you can claim the cost as a repair. Then the following year you might elect to repair another part of the fence. It's a good idea to talk to your accountant before you do any work on your property in case they can think of a clever (but ATO compliant) way to do it.

One thing your accountant might not be aware of, though, is that if you elect to rip up the carpet and polish the floors of your rental property, that work can be claimed as a repair. Here is an Interpretative Decision that relates to this:
[Replacing worn carpet by polishing existing floorboards]

(As an aside, the register of Interpretative Decisions where the above came from has lots of very useful information. The ATO invites you to use these Decisions as reference if the circumstances in the case are the same as yours.)

29. Tree removal can be a tricky one. If you bought a property and there was an

existing problem tree on site, you cannot claim the cost of its removal as a repair. But if a tree has become a problem **since** you bought a property, you claim the cost of removal as a repair.

30. Asbestos removal is another common issue for property investors. Many people don't realize that cost of removing asbestos can be claimed as an 'environmental protection activity'. From reading the Decision below, the important thing would appear to be the fact that the property was owned and rented for a while before doing the work. Buying a property and tossing out some asbestos straightaway would come under the 'initial repairs' rule.

[Asbestos removal]

31. Can you claim for your own labour?

Some years ago, there was an accountant on the seminar circuit who used to outline a decidedly dodgy strategy. He used to promote the idea of taking a month off work to do a reno on an investment property, pulling in every mate and relative who owed a favour, getting a $50,000 renovation done for a fraction of that amount, and then getting a QS in to estimate the reno at trade rates i.e. $50,000. 'Bingo', he would say, 'Instant money'.

The ATO state very clearly that you can only claim for money you have laid out. If you have opted to take time off work to do work yourself, that's great, but don't try to put a value on it and claim it. Similarly, if you have managed to get your investment property rewired for the cost of a pizza and a slab of beer, don't try and claim thousands of dollars for the work. Pretty logical, really.

32. What is the most tax effective way to improve my property?

This is straying into accountant territory, so we won't go into too much detail. Timing is really the key. If you need to install some new Assets, like a rangehood or some new curtains etc, doing this as close as possible to June 30 is ideal. Assets costing under $300 can be claimed in full, and those between $300 and $1,000 can go into the Low Value Pool – 18.75% in the first part year.

Renting a property out for a while can give you some latitude with repairs vs improvements, but be sensible.

33. What if I rent out my own home?

Plenty of people do this. You can start claiming depreciation from when you make the property available to be rented. The building (depending on its age) and any renovations you have done while you lived there can be depreciated. So can the fixtures and fittings. And if you rent it out part furnished, even better - there is lots of depreciation in furniture. (Don't forget to talk to your accountant about the CGT implications of renting out your own home.)

34. How can you spot a dud Depreciation Schedule?

There are two main components to a Depreciation Schedule – the building component, and the Assets (fixtures and fittings). The easiest way for the ATO to look for errors in a Depreciation Schedule is to scan the items in the list of Assets.

Kitchen benches are not an Asset – they are part of the building. We still occasionally see Depreciation Schedules from competitors that get this wrong even though the ATO clarified this years ago. Clotheslines, letterboxes, skylights, garage doors (but not motors) and numerous other items are also 'building'. It would take someone at the ATO about 20 seconds to pick a dud Schedule just by looking down the list of Assets. And this list does change periodically, which is a trap for people who only do depreciation work in tax season.

Most people don't know how to spot a dud Depreciation Schedule. The only way to safeguard yourself is to use people who specialize in doing them. Like us.

So that's it. We hope this has answered a few questions you might have, but if there are others, feel free to email us at ebook@depreciator.com.au Depreciation is all we do and we're keen to expand this book to make it even more useful.

If you want to talk specifically about your property, just call **1300 66 00 33**. Although we're a national company with 60 or so Quantity Surveyors around the country, all enquires are handled by a central office and anybody here can help you.