

Tax Tools – Rental Properties – Claiming Building Depreciation

This information is mainly provided to assist clients when they are considering to purchase a rental property, so they can ensure the vendor provides them with the relevant information so they can make a claim in their tax returns.

The deduction applies to income producing residential buildings, such as rental properties. The calculation of the deduction is based on first determining the amount of qualifying expenditure and then applying a rate to that amount. The “qualifying expenditure” is the original construction costs, reduced by a number of factors. This amount is **not** your purchase price for the property and needs to be determined by a qualified quantity surveyor.

If construction commenced:	<u>Rate %</u>
• From 18 July, 1985 to 15 September, 1987	4.0
• From 16 September, 1987 onwards	2.5

For example, the rental property may have been constructed for \$100,000 (qualifying expenditure) in 1990. You may have purchased the property for \$400,000 in 2011. The annual deduction will be:

$$\text{❖ Qualifying Expenditure of } \$100,000 \text{ by } 2.5\% = \$2,500$$

The yearly deduction will be \$2,500, which on a taxable income of around \$80,000 will save about \$800 in Tax per year. The deduction can be claimed for a maximum of 40 years from the date of construction.

Vendor is Required to provide you with relevant information

Under the Income Tax Assessment Act, a person selling a relevant building is required to pass on sufficient information to the purchaser to enable them to ascertain how they can make the claim in following years. This would be satisfied by the vendor providing the following information:

- The total amount of the qualifying expenditure
- Date when original construction commenced
- The amount of the qualifying expenditure which has not been claimed.

The information must be given within six months of the end of the year in which the disposal occurs. The purchaser is required to retain that information for a period of five years following the earlier of the purchaser ceasing to be the owner of the building and the destruction of the building.

We recommend you instruct your solicitor to include the above information as a requirement of the Sale of the Property.

What Happens when the relevant information is not provided at Purchase

Often this information is not provided. We then strongly recommend that, a qualified quantity surveyor is employed to make the required valuation, so we can claim the correct building depreciation amount. The money paid to the quantity surveyor can be claimed in your tax return as a deduction in the year it is paid.

Alterations, Additions and Structural Improvements

Yes, expenditure incurred in respect of extensions, alterations or improvements qualifies as deductible construction expenditure. Remedial painting for a newly acquired rental property is capital in nature and the cost will qualify as construction expenditure. Engineering, drafting and architects' fees also qualify.