TAX DEPRECIATION

The Basics and Reason Behind It – July 2022

WHAT IS TAX DEPRECIATION?

- Allowances for wear and tear for income producing property
- Calculated based on assets and its effective life
- Second largest tax deductions after interest
- Calculated by Qualified Quantity Surveyors (TPB registered)
- Claim included in yearly Tax Return

WHY DEPRECIATION?

- Reduce your taxable income
- Pay less tax - Individual or Company/Trust

WHO CAN CLAIM TAX DEPRECIATION?

- Property owners - Individual or Company/Trust for any investment properties residential, commercial buildings etc

WHAT CAN I CLAIM?

Under Income Tax Assessment Act 1997 (ITAA 1997)

- Section 40-25 Division 40 Depreciating Assets
- Section 43-10 Division 43 Capital Works

IMPACT OF DEPRECIATION

Without Depreciation

COMPANY TAX	**FY 2022**
Income	$ 10,000,000
Less Expense	($ 3,000,000)
Taxable Income	$ 7,000,000
Tax Liability $7m x say (25% company tax)	**$ 1,750,000**

With Depreciation

COMPANY TAX	**FY 2022**
Income	$ 10,000,000
Less Expense Depreciation	 ($ 3,000,000) ($ 2,000,000)
Taxable Income	$ 5,000,000
Tax Liability $5m x say (25% company tax)	**$ 1,250,000**
Tax Savings	**$ 500,000**

TIPS ON GETTING MOST OUT OF TAX DEPRECIATION

01

DIVISION 40 DEPRECIATING ASSETS

More depreciating assets identified, higher the depreciation amount

02

DIVISION 43 CAPITAL WORKS DEDUCTIONS

Newer the building,
more allowances on the capital works deductions

Any previous refurbishment costs count and pass on to new owners. It is the tax QS's responsibility to assess how much it was worth!

03

COST BASE ASSESSMENT

Assessment usually calculated based on apportionment of purchase price so every assets are uplifted to reflect the true cost of assets.

e.g. = $\dfrac{\text{Purchase Price}}{(\text{Replacement Cost} + \text{Land Value})}$

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