

## INVESTMENT PROPERTIES

Specific deductions are allowed under the Income Tax Assessment Act 1997 (and preceding legislation) for owners of investment properties. These deductions fall into two categories:

1. Building Depreciation
2. Depreciation on assets in the building.

## **BUILDING DEPRECIATION**

Under Division 43 of the Income Tax Assessment Act 1997 and preceding legislation tax deductions are available for expenditure incurred on the construction of new buildings or renovations/extensions to buildings. This is called the 'building allowance', or 'building depreciation'.

In order to qualify for this deduction the building must be used to produce assessable income. The allowance is available for either 25 or 40 years from the date of construction. N.B. not the date of purchase. This legislation was introduced over a 13 year time span and the earliest date of commencement of construction is as follows:

Building Type	Earliest date construction started
1. Non residential	20/7/82
2. Short term traveller accommodation	22/8/79
3. Residential	18/7/85
4. Buildings used for eligible industrial activities	27/2/92

Capital works deductions are not available until the construction of the capital works has been completed. A deduction can be claimed if the taxpayer owns or leases the capital works (but only where construction started after 30 June 1997 for a hotel or apartment or 26 February 1992 for other capital works).

The value which is depreciated is the "cost of construction". This includes architect fees, engineering fees, building permits and materials used for construction. Any costs involved with site clearance, landscaping, carpark construction and the fencing of a property are excluded. If the value of a building or its date of construction is not known, a quantity surveyor or other independent qualified person must be used to provide an independent valuation.

**(07) 3337 6428**

(07) 3337 6429

While no balancing adjustment is required on the disposal of a building, there may be CGT consequences. For assets acquired after 13 May 1997, expenditure deducted under capital allowance provisions is excluded from the cost base of the asset for CGT purposes. N.B. This adjustment relates to the date of purchase, not the date of construction.

The allowance also covers extensions, structural improvements, car park resurfacing and other forms of construction.

If you currently have a building which may be eligible for this claim or you are thinking of buying a building and are unsure of the implications, please contact our office.

### DEDUCTIONS FOR DEPRECIATING ASSETS

Income tax deductions may be claimed for assets that are included in properties when they are purchased. Examples of these are:

- Hot water systems
- Carpets
- Owners interest in common area of a strata title property.

Where the owner of a property is unable to identify the cost of a particular item, a registered quantity surveyor should be used to identify the cost to be used for income tax purposes.

Any amount that is identified as being attributable to a depreciating asset is then deducted from the cost price of the investment property for the purpose of calculating the capital gain/loss when the property is subsequently sold.

**Disclaimer - The above is not advice but is provided for information only. Clients should not act solely on the basis of the material contained in this bulletin.**