Renovate and Depreciate

When purchasing an older investment property, many investors decide to renovate the property after settlement. Investors can often claim thousands of dollars in deductions when renovations are done. The following case study highlights how it worked for one investor.

Case Study

Jim purchased a 60 year old 3 bedroom townhouse in Paddington. In its pre-renovation condition, the house contained carpet, vinyl, blinds, an air conditioner, old stove, hot water service and light fittings. Upon his accountant telling him about the potential depreciation deductions available in old, pre-renovated properties, Jim decided to contact a Quantity Surveyor (QS) to enquire about a scrapping report before he started any work on the property. The QS visited the site and conducted a full site inspection, taking note of all the items that could be 'written off' before they were thrown out. The following deductions were obtained:

Item	Depreciation Obtained
Air-conditioning Unit	$600
Blinds	$600
Carpet	$2,500
Hot Water Service	$420
Light shades	$300
Stove	$350
Vinyl	$1,500
Total	**$6,270**

Jim then took the QS report to his accountant and claimed $6,270 in depreciation deductions that year in his personal tax return. Over the following 12 months, Jim completed his renovations, including an extension at the rear of the property. He again contacted the QS to come and assess the renovated property to achieve the maximum depreciation deductions. The QS completed a second report for Jim, taking into consideration all new additions (stainless steel oven, cooktop and rangehood, new carpet, air conditioning unit, etc) as well as calculating the construction write off allowance now available on the extension.

Both Jim and his accountant were impressed with the total depreciation claim on the scrapped assets and renovated property of $16,000 in the first year alone!

How is Scrapping Calculated?

The first report prepared by the specialist QS is undertaken prior to any renovation or refurbishment. The report identifies the value of all plant and equipment and qualifying capital expenditure contained within the property.

A second report is then prepared by the QS after completion of the renovation, identifying the value of all new plant and equipment and capital expenditure within the property. The assets within the building that are no longer present can be written off immediately.

Scrapping is a complicated process that requires the expertise of a specialist Quantity Surveyor, in conjunction with your accountant.

Many investors remain unaware that pre-renovation/demolition investment properties contain depreciation deductions. If you are unsure about your entitlements, contact a specialist QS before you start any work on your property.

Article Provided by BMT Tax Depreciation Pty Ltd.

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