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## Depreciating Property Assets – what rate is right?

*What used to be called depreciation in the past is now referred to as Capital Allowance (Div 40) and Capital Works Writeoff (Div 43). Many times it is difficult to determine in which category an asset in a property fall into. Get it wrong and you can lose tax deductions or worse ATO may take issue with it in case of an audit.*

*Cost estimators popularly known as Quantity Surveyors in the property industry, have largely replaced accountants in preparing detailed schedules summarising assets, allocating to the correct grouping and applying the correct depreciation rates.*

*ATO prefers Quantity Surveyors not only because they are engineers skilled in estimating building costs but also because they are independent. Nowadays they prepare comprehensive reports complying with the legislative requirements.*

*In their latest newsletter, BMT & associates have briefly explained and summarised what items fall into which category along with a explanations. I was so impressed with the presentation I have taken permission to include it in this newsletter in its entirety – see below.*

*Early lodgements = Early refunds. Most negatively geared property investors expect a refund on lodging their tax returns. Lodging your tax return early means an early refund.*

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### **The Great Division: Division 40 Vs Division 43?**

Maximising property depreciation deductions requires a clear understanding of how the different parts of a rental property qualify for Division 40 or Division 43. A property depreciation report needs to be structured so that deductions are maximised and accelerated when needed. This is achieved by creating an effective balance between assets that qualify for Division 40 and Division 43. Here at BMT Tax Depreciation our job is to identify as many items as possible that will depreciate at a faster rate. Creating this balance will magnify a property investor's deductions, putting more cash into their pockets sooner.

## Division 40

Division 40 is the legislation that covers the depreciation of '**plant and equipment**', i.e. the **removable** fixtures and fittings within an investment property. Each plant and equipment item has an effective life set by the Australian Taxation Office (ATO) and the depreciation **deduction available on that item is calculated using this effective life.**

Some of the Division 40 items commonly found within a property include:

- Hot water service
- ovens
- vinyl
- ceiling fans
- furniture
- floating timber floors
- dishwashers
- rangehoods
- clothes dryers
- carpet
- smoke alarms
- freestanding spa
- blinds
- air conditioners
- curtains
- exhaust fans
- light shades
- security systems
- washing machines
- microwaves
- cooktops
- solar panels
- garbage bins
- bathroom accessories

## Division 43

Otherwise known as '**Capital Works Allowance**' or 'Building Write-Off', Division 43 covers the deduction available to owners for the **structural elements of a building** and the items within the property that are **deemed irremovable**. It includes the

- foundations,
- walls,
- ceiling,
- roof and also includes
- fixed assets like tiles,
- toilets,
- built-in cupboards,
- windows and doors.

Properties qualify for this allowance depending on their age and type; either **2.5%** or 4% of a property's historical construction cost or estimated cost can be claimed by a relevant professional such as a Quantity Surveyor.

### The Great Division

The main difference between Division 40 and Division 43 is that Division 40 items depreciate **faster**. For example, while the building structure (Division 43) can be claimed at a rate of 2.5% over 40 years, carpet (Division 40) in a residential property depreciates at a rate of 20% over 10 years (using the diminishing value method).

Some items can create **confusion** when categorising them into a Division 40 or Division 43 deduction. For example, an air conditioning unit will fall under Division 40, whereas the ducting throughout the house for the same air conditioner falls under Division 43. A swimming pool falls under the Division 43 allowance; however, the pumps for the pool qualify for Division 40.

When these assets are not classified properly, money is lost in the first 5 financial years. We often see the obvious assets classified as Division 40 and the more inconspicuous items **sometimes missed**. This means they get combined with Division 43 and claimed at 2.5% rather than the much higher rate based upon their effective life, which could mean a difference of thousands of dollars in the property investor's pocket.

Following are some examples of Division 40 and Division 43 items found inside and outside of a normal home.





It is vital that a specialist Quantity Surveyor completes your property Tax Depreciation Report so you can be sure that your claim is maximised **within ATO guidelines**. Creating the correct balance between Division 40 and Division 43 is a critical aspect of maximising your deductions. If you are unsure, call BMT Tax Depreciation today for a free, no obligation assessment for your current depreciation claim.

"We strive to provide our clients with the best tax depreciation and cost planning reports. Our repeat business is the best demonstration of our commitment to our clients and alliances"

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#### Quote of the month

"Price is what you pay. **Value** is what you get." *Warren Buffett*

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### Avoid delays - **Lodge early** – Tax Refunds Sooner

Most property investors are negatively geared. This means that where they have not requested a variation of their PAYG deduction from their employer, they get refunds on lodging their tax returns at the end of the financial year.

ATO is now processing lodgement of returns very fast, particularly where there is a refund and the refund is being deposited electronically into the taxpayer's bank account. Some refund assessments are issuing within 7 working days.

**Tax Tip** - To get refunds lodge your tax return soon. *Property Tax Specialists* can help facilitate the process and minimise time and cost with their checklists and templates. Contact Shukri on [Shukri@propertytaxspecialists.com.au](mailto:Shukri@propertytaxspecialists.com.au)

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### *Where are You Now? **Where would you like to be?** Call if you want to chat ... **We look forward to being of Service***

Please do not hesitate to contact us if you would like to review & discuss your current property & tax situation, your asset protection strategy, structuring your next investment property, planning to legally minimise your tax position or just to prepare your next tax return.

We look forward to being of service. We also look forward to your referrals.

To improve our service we welcome all constructive comments on this newsletter and other materials.

For help contact **Shukri Barbara** at Property Tax Specialists at [Shukri@propertytaxspecialists.com.au](mailto:Shukri@propertytaxspecialists.com.au)

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### Checklists and Templates

To make the compilation & reporting task for 2011 tax returns easier, clients of **Property Tax Specialists** received checklists and templates to facilitate the process ... **saving them time and money** ... the 'write' way is **having clear documentation**. ATO way means time/money wastage with audit investigation.

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### Disclaimer

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained.

Acknowledgement - parts of this newsletter have been taken from KnowledgeShop Pty Ltd client newsletters. Barbara & co – Property Tax Specialists is a member of the Knowledge Shop and Hayes Knight Network

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Kind Regards  
Shukri Barbara

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Property Tax Specialists – [Prosperity & Peace of Mind](#)

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