Depreciation Differences: Old vs New Residential Properties

Property depreciation is a non-cash tax deduction available to the owners of income producing properties. As a building gets older, items wear out – they depreciate. The ATO allows property owners to claim this depreciation as a tax deduction. Depreciation on items such as carpets, stoves, blinds, hot water systems, light shades and heaters are all valid deductions. There is also a deduction available for the wear and tear on the structural element of a building, commonly called building write-off.

Investors often wonder about the depreciation potential of **older properties compared to new properties**. The simple answer is that new properties will get higher depreciation deductions, however all investment properties both new and old can attract depreciation deductions.

New properties have new fixtures and fittings, so the starting value of those items is higher, resulting in higher depreciation deductions. The same applies to the building write-off allowance. 2.5% of the structural costs of a building can be claimed per year for forty years. Construction costs generally increase over time, making building write-off deductions on new buildings higher.

Owners of older properties can claim the residual value of the building up to forty years from construction. For example, if an investment property is five years old, the owner will have thirty five years left of building write-off to claim. Building write-off is governed by the date that construction began. If a residential building commenced construction before the 18th of July 1985 there is no building write-off available. Investors who own properties that are built before this date will still be able to make a claim on the fixtures and fittings within the property and include any recent renovations, even if the renovation was carried out by a previous owner.

It is always worth getting advice about the depreciation potential of a property regardless of age. The deductions are not as high on older properties but there are usually enough deductions to make the process worthwhile.

The table below shows the difference in deductions for depreciation of fixtures and fittings and building write-off between similar new and old properties.

Older Property (Minor renovations. Year of Construction 1974)					
Purchase Price	Depreciation Year 1	Depreciation Year 2	Depreciation Year 3	Depreciation Year 4	Depreciation Year 5
$460,000	$7,127	$6,018	$5,241	$4,188	$3,786

Recent Property (Year of Construction 2005)					
Purchase Price	Depreciation Year 1	Depreciation Year 2	Depreciation Year 3	Depreciation Year 4	Depreciation Year 5
$460,000	$9,874	$8,812	$7,659	$6,554	$5,917

New Property (Year of Construction 2012)					
Purchase Price	Depreciation Year 1	Depreciation Year 2	Depreciation Year 3	Depreciation Year 4	Depreciation Year 5
$460,000	$16,082	$14,371	$12,347	$11,238	$10,563

For obligation free advice about an investment property scenario, please do not hesitate to contact BMT Tax Depreciation on 1300 728 726 and speak to one of our professionals.

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