FOR OWNERS

Why Depreciation is a Big Deal for Property Investors

If you own - or are planning to own - an investment property, depreciation isn't just accounting jargon. It's a powerful tax tool that can significantly improve your cash flow and bottom line. Here's what you should know.

What is depreciation

When you buy an investment property, you're not just buying the bricks and mortar. The building's structure (walls, roof, etc.) and many of the fixtures and fittings inside (carpets, appliances, blinds, etc.) gradually lose value over time. That decline in value is called depreciation, and under certain conditions you can claim it as a tax deduction.

Depreciation comes in two parts:

Capital works (building & structural items): The physical structure of the building and permanent fixtures e.g. walls, flooring, built-in fixtures may be eligible.

Plant & equipment (fixtures/fittings): Items like air-conditioners, ovens, carpets, blinds, appliances, essentially things that wear out or become outdated, may also be depreciable (depending on when they were installed).

Because depreciation is a **non-cash** deduction, you don't need to spend extra money to claim it, it's often one of the most powerful tax deductions available for rental property owners.

Why investors should use depreciation

Reduce taxable income legally and strategically: Every dollar of depreciation you claim lowers your taxable rental income. That can reduce how much tax you pay, or even turn a small positive income into a neutral or negative, which can be helpful especially in earlier years.

Improve cash flow without spending more: Because depreciation doesn't require ongoing expenditure, you benefit from tax deductions while still keeping income flowing, great especially if cash flow is tight.

Claim deductions over many years: For many properties, depreciation deductions can continue year after year, including both structural depreciation and asset-based depreciation (on eligible fixtures). That means long term tax benefits for the life of the property (or asset).

Boost overall investment returns: By reducing taxable income and improving cash flow, depreciation can significantly increase your after-tax return on the property, making an investment that might otherwise just break even into a profitable one.

How to make the most of depreciation

Get a **tax depreciation schedule** prepared by a qualified professional (often a quantity surveyor). This helps you identify all claimable items and ensures you're compliant with rules.

Keep good **records:** invoices, dates when assets were installed or purchased, descriptions, all useful to support claims, especially for items like plant & equipment.

Understand what you **can and can't claim.** For example, some second hand fixtures (if acquired after certain dates) may not be eligible.

What this means for you

If you overlook depreciation or skip getting a proper depreciation schedule, you could be leaving thousands of dollars in deductions on the table.

Claiming depreciation correctly can turn a modest rental income into a stronger return, reduce your tax burden, improve cash flow, and make your property one of your best long term investments.

Note: *This is general information only. Tax implications, interest rates, and cash flow outcomes can vary significantly depending on your personal situation. Always seek advice from a qualified professional before making financial decisions.*