



Residential property investors lose major deductions

The Australian Government has recently made changes to the existing legislation for Division 40 Plant and Equipment deductions available to residential property investors. These amendments, which affect only residential property investors, were introduced as part of the May 2017 budget and become effective from 1 July 2017.

The measure places a restriction on the deduction allowed for plant and equipment purchased, as part of the acquisition of an existing residential property. When purchasing an existing residential property, the new owner will no longer be allowed to claim a deduction for the cost of any plant and equipment purchased with the property over its effective life. The value attributable to these assets will now be treated as an addition to the cost base of the property for capital gains tax purposes.

Property owners who purchase newly constructed residential property or have purchased property (newly constructed or previously owned) prior to 7.30pm on the 9th of May 2017 will still be allowed to depreciate plant and equipment over its effective life or until the asset is sold. This deduction is also allowed if the owners have purchased plant and equipment and installed the items themselves.

Investors who purchase new plant and equipment will continue to be able to claim a deduction over the effective life of the asset.

There have been no changes to division 43 (capital works deduction) and this is still an allowable deduction for all investment properties.

Those **not** affected include:

- Investors who purchase and install plant and equipment, including capital improvements, as this is not an existing asset
- Investors who acquire new or substantially renovated properties, as plant and equipment has not been previously deducted
- Investors who have signed contracts prior to 7.30pm on the 9th of May 2017
- Investors who own commercial/non-residential property
- Deductions that have arisen in the course of carrying on a property investment related business
- Companies that own residential properties

Should you have any questions in relation to this, please contact our office.