TAX TALKS

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208 | SMSF Depreciation

Your SMSF can claim SMSF depreciation of any structures at 2.5%, new fittings over their effective life and anything below $300 straight away.

SMSF Depreciation

An SMSF can claim depreciation like any other entity. But is this deprecation within an SMSF any different to depreciation outside of an SMSF?

This is the question we asked Scott Brunsdon of Depreciator. Here is what we learned but please listen in as Scott explains all this much better than we ever could.

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Deprecation

Most assets lose their value over time. Deprecation spreads the cost of such an asset over its effective life. How much depreciation is allocated to any given period depends on the depreciation method you use.

The depreciation methods available to you depend on a number of factors. The type of asset, its purpose (business or passive income) and whether it is new or second-hand might determine which depreciation you can claim.

Terminology

Depreciation is an accounting term. Australian tax law doesn't actually use the word depreciation. Instead they refer to capital works deduction for Div 43, capital allowance for Div 40 and so on. But let's just stick with depreciation.

SMSF Deprecation

For division 43 and 40 as well as the low value pool it doesn't matter whether the property is used in a business (active asset) or just to collect rent (passive income). The only requirement is that the asset is used to generate income. So an SMSF can claim Div 43 and 40 and the low value pool irrespective of whether they run a business or not.

Most SMSFs are passive investors holding non-business assets, hence qualifying for the $300 immediate deduction as well.

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Division 43

Under Division 43 you can depreciate building's structure and fixed items straight-line over 40 years, so at 2.5%, but doesn't cover land, soft landscaping and residential properties built before 15 September 1987.

Division 40

Division 40 allows you to depreciate plant and equipment either through the diminishing value or the prime cost methods. However, since 2017 an SMSF can't claim Div 40 for 2nd hand residential property.

Low-Value Pool

Property investors can use low-value pooling to depreciate plant and equipment at a higher rate. The low-value pooling is available for investors and business alike. A low-value pool can include low-cost assets as well as low-value assets.

A low-cost asset is a depreciable asset that originally cost less than $1,000. A low-value asset is a depreciable asset that originally cost more than $1,000 but that now has a written down value of less than $1,000.

$300 Immediate Deduction

An SMSF can claim an immediate deduction under s40-80(2) for any plant and equipment under division 40 that cost less than $300 and is a
non-business asset, as long as it is not excluded as 2nd hand residential property.

Non-SMSF Depreciation

Very few SMSFs run a business. So depreciation aimed at active business assets is usually not relevant to SMSFs. So most SMSF won't be able to claim the instant asset write-off or $100 threshold.

Instant Asset Write-Off

If a business' aggregated turnover is below the relevant turnover threshold for the year – currently $50m – the business can claim an instant asset write-off for any business asset costing less than currently $30,000.

$100 Threshold

A small business can immediately deduct all business assets that cost less than $100.

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