FACT SHEET

Claiming depreciation on buildings

Issued: 20 July 2022

IS 22/04 FS

This fact sheet accompanies Interpretation Statement IS 22/04. IS 22/04 provides guidance to building owners on when they can claim depreciation on buildings. It considers the meaning of "building" for depreciation purposes and the distinction between residential and non-residential buildings. IS 22/04 sets out that deductions for depreciation loss are available for non-residential buildings and for some building fit-out. It explains that depreciation deductions are not available for residential buildings.

IS 22/04 also sets out:

- how to find the right depreciation rate for a building
- when fit-out attached to the building is depreciable
- how to treat an improvement to a building
- what happens when a building is disposed of or its use changes.

RELATED DOCUMENT

Interpretation Statement IS 22/04: Claiming depreciation on buildings

Introduction

1. In 2011 changes to the depreciation rules meant that the depreciation rate for most long-life buildings (buildings with an estimated useful life of 50 years or more) was reduced to 0%. That change took effect from the 2011-12 income year.

2. In 2020, depreciation deductions were reintroduced for non-residential buildings used, or available for use, for deriving income or carrying on a business for that purpose. For these buildings, depreciation can be claimed for the 2020-21 and later income years. The depreciation rate for residential buildings remains at 0%.

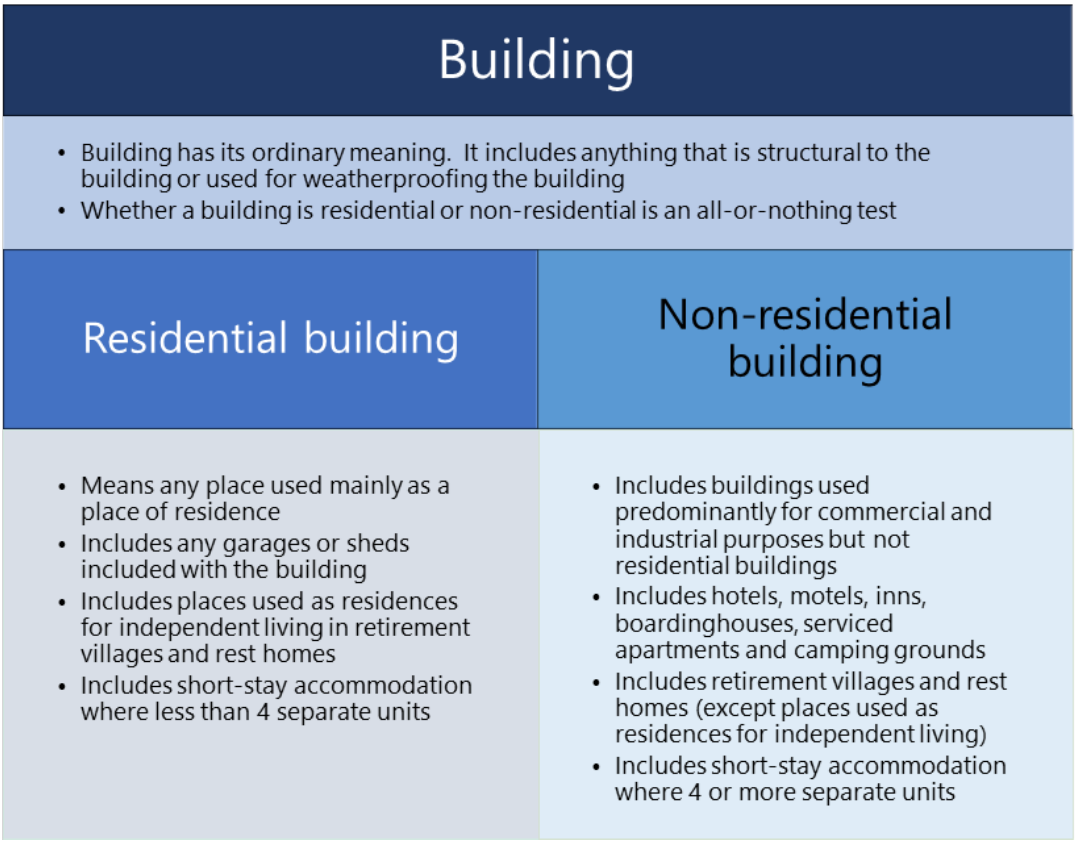
3. To work out if you can claim depreciation on your building, you need to consider:

   - Do you have a non-residential building?
   - What if you make improvements to the building?
   - Can you depreciate the fit-out in your building?
   - What is the right depreciation rate for your building?
   - What if you sell your building or change its use?

Do you have a non-residential building?

4. You can claim depreciation deductions on non-residential buildings you own. You cannot claim depreciation deductions for any residential buildings you own. This means that it is important you understand whether a building is a non-residential building or a residential building. The meanings of building, residential building and non-residential building are summarised in Figure 1 below.

Figure 1: Meaning of building



5. Whether a building is a non-residential building or a residential building is determined based on the building's predominant use. A building owner ***cannot apportion*** a mixed-use building for depreciation purposes. Because the test is based on the building's predominant use, it is effectively an ***all-or-nothing test***.

What if you make improvements to the building?

6. If you improve your building, you must treat the improvement as a separate item of depreciable property in the first year. This is so you can claim the part-year depreciation loss for the improvement. In the following year you can either continue to treat the improvement as a separate item of depreciable property or add it to the building (either to the adjusted tax value of the building (ATV) if using the diminishing value method (DV) or to the cost if using the straight-line method (SL)). In either case, the appropriate rate of depreciation for the improvement is the building rate.

Can you depreciate the fit-out in your building?

7. Some fit-out of a building is separately depreciable. It depends on the nature of the building and the nature of the fit-out. Any fit-out that is structural to the building or used for weatherproofing the building is treated as part of the building and not fit-out. Whether that is depreciable will depend on whether the building is depreciable as above.

8. You can depreciate the fit-out if it is in a wholly non-residential building. Fit-out is also sometimes depreciable in a mixed-use building:

   - In a predominantly non-residential building, the fit-out must not be used in a dwelling within the building but it can be used in relation to the dwelling, such as fit-out of the common areas of the building.
   - In a predominantly residential building, the fit-out must be in a wholly non-residential area of the building. Items of shared fit-out such as in the common areas of the predominantly residential building are not depreciable.

9. The tax treatment of fit-out is summarised in Figure 2.

Figure 2: Claiming depreciation on building fit-out

Can depreciation be claimed?		
Item	**Commercial fit-out**	**Shared fit-out**
Wholly non-residential building	Yes	N/A
Predominantly non-residential building	Yes	Yes
Predominantly residential building	Yes	No

What is the right depreciation rate for your building?

10. The depreciation rates for most non-residential buildings are 2% DV and 1.5% SL. The depreciation rate for residential buildings is 0%. However, other depreciation rates can apply to some non-residential buildings. For example, a different rate is available if the building has a shorter economic useful life (such as a barn, a portable building or a

hothouse). Additionally, a special rate may be available if the item is used in an unusual way.

11. Owners of non-residential buildings can find the right depreciation rate for their building using the guides on the website as summarised in Figure 3.

Figure 3: Depreciation rates

Find the rate – based on when the building was acquired			
Date	Pre 1 April 1993	Between 1 April 1993 and 19 May 2005	After 19 May 2005
Rate source	IR267 Historical rates	IR267 Historical rates	IR265 Schedule or Online calculator
Further details	Part 1 applies	If building used in specific industry, then Part 2 Industry categories apply If not industry specific, then Part 3 Asset categories apply	Use specific rate appropriate for your building if one applies If no specific rate applies, the non-residential building rate of 2% DV or 1.5% SL applies

What if you sell your building or change its use?

12. If you sell your building, you may have depreciation recovery income or additional depreciation loss. Depreciation recovery income or additional depreciation loss can also arise if you change the building's use, including situations when:

- You change how you use a building, like changing a non-residential building to residential use (this is treated as if the building was sold for market value), or
- Your building suffered damage so that it could no longer be used to derive income ***and*** it was demolished or abandoned for future demolition.

13. Depreciation recovery income arises if the amount received for the sale of the building (or treated as received when the use changes) is greater than the ATV of the building or fit-out. However, the amount of depreciation recovery income cannot be more than the total amount of depreciation loss that was available for the person for the building or fit-out.

14. Additional depreciation loss may be available if the amount received on disposal is less than the ATV of the building or fit-out. However, for buildings, additional depreciation

loss can only be claimed where the building is rendered useless and demolished or abandoned for demolition. In addition, the cause of the damage to the building needs to have been a natural event (such as a flood or earthquake) and beyond the control of the building owner (or their agent or a person associated with them).

About this document

Some of our longer or more complex items are accompanied by fact sheets, which summarise and explain the main points.