



Depreciation & Investment Property Cash Flow Guide

Understanding how depreciation improves your
after-tax property position



What Is Depreciation?

A non-cash deduction that reduces your taxable income

Depreciation is a tax deduction that allows property investors to claim the natural wear and tear on a building and its fixtures over time. Unlike other deductions such as interest or maintenance, depreciation does not require you to spend any money — it is a **non-cash deduction** that directly reduces your taxable income and improves your after-tax cash flow.

The Australian Taxation Office (ATO) allows investors to claim depreciation on investment properties through a quantity surveyor's tax depreciation schedule. This is one of the most powerful and commonly underutilised tools in property investment.

● **Division 43 - Capital Works Deductions**

Covers the structural elements of the building itself, such as walls, roofing, doors, and foundations. Eligible properties built after 15 September 1987 can be claimed at 2.5% per year over 40 years.

● **Division 40 - Plant & Equipment**

Covers removable or mechanical assets within the property, such as carpet, blinds, air conditioning units, hot water systems, ovens, and dishwashers. These items are depreciated over their individual effective life as determined by the ATO.

● **Who Can Claim?**

Any property investor earning rental income from a residential or commercial investment property may be eligible. A tax depreciation schedule prepared by a qualified quantity surveyor is required to substantiate the claim.



How to Leverage Depreciation

Turning a non-cash deduction into real cash flow savings

Many investors focus solely on rental yield and capital growth when assessing a property. However, depreciation is often the difference between a property being cash flow negative and cash flow neutral — or even cash flow positive. Understanding and maximising depreciation is essential to building a sustainable investment portfolio.

Reduces Taxable Income

Depreciation is deducted from your assessable income, lowering the amount of tax you owe. This puts real money back in your pocket each year without any additional out-of-pocket expense.

Improves After-Tax Cash Flow

By reducing your tax liability, depreciation directly improves your net cash position. This is especially powerful for negatively geared properties where holding costs exceed rental income.

No Cash Outlay Required

Unlike interest payments, insurance, or repairs, depreciation does not cost you anything. It is a paper deduction that reflects the declining value of the property's structure and assets over time.

Amplifies Negative Gearing

Depreciation increases the total deductible loss on a negatively geared property, which in turn generates a larger tax refund. This reduces the true weekly cost of holding the investment.

Strongest in Early Years

New and near-new properties offer the highest depreciation deductions in the first five to ten years. This front-loads the cash flow benefit, accelerating your ability to reinvest.

Builds Portfolio Capacity

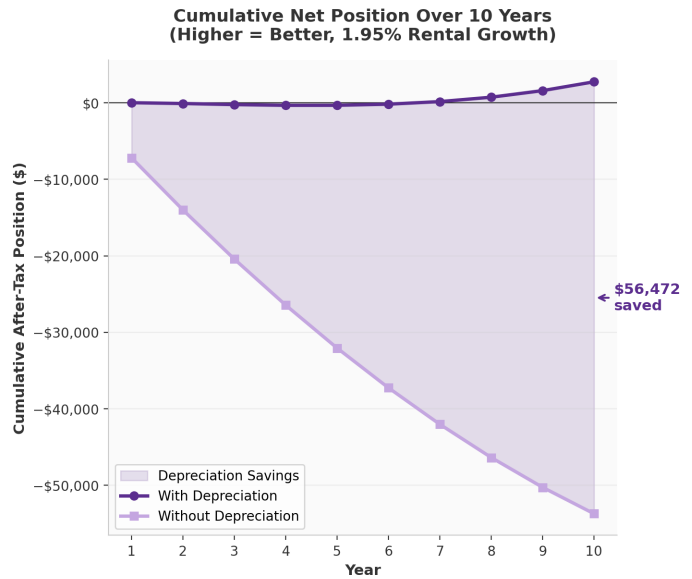
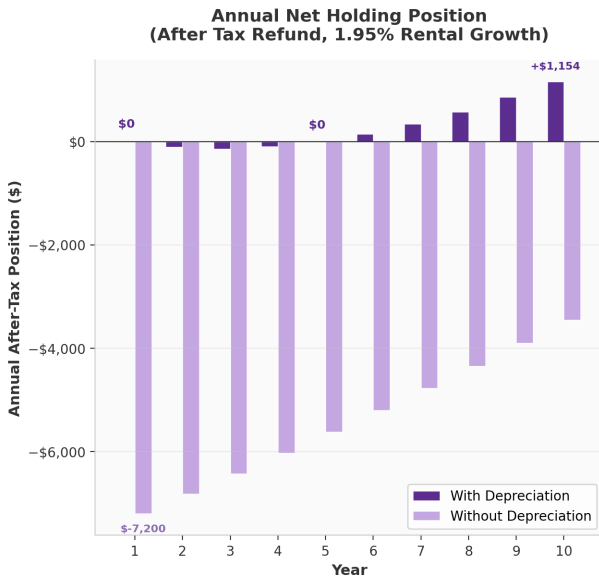
Better after-tax cash flow means lower holding costs, which improves your borrowing capacity and positions you to acquire additional investment properties sooner.



Depreciation: Cash Flow Impact

A 10-year comparison with and without depreciation

Scenario Assumptions: Purchase Price: \$850,000 | Build Cost: \$400,000 | Loan: \$680,000 (80% LVR) | Interest Rate: 5.5% | Income: \$120,000 (39% marginal rate) | Starting Yield: 4.1% | Rental Growth: 1.95% p.a.



Key Findings

	With Depreciation	Without Depreciation
Year 1		
Rental Income	\$35,100	\$35,100
Net Position	\$0/yr (\$0/wk)	-\$7,200/yr (-\$138/wk)
Year 5		
Rental Income (incl. growth)	\$37,913	\$37,913
Net Position	\$0/yr (\$0/wk)	-\$5,616/yr (-\$108/wk)
Year 10		
Rental Income (incl. growth)	\$41,748	\$41,748
Net Position	+\$1,145/yr (+\$22/wk)	-\$3,457/yr (-\$66/wk)
10-Year Cumulative		
Total Net Position	+\$2,709	-\$53,763

10-Year Outcome: With 1.95% annual rental growth and depreciation, this property costs nothing to hold in both Year 1 and Year 5, turns cash flow positive from Year 6, and generates +\$22/wk by Year 10. Over 10 years, the cumulative position is +\$2,709. Without depreciation, you would be \$53,763 out of pocket — a difference of \$56,472.



Worked Example

How depreciation transforms your annual cash flow

The following example uses an \$850,000 new-build property with an 80% loan-to-value ratio at 5.5% interest and a 4.1% starting rental yield growing at 1.95% per year. The investor earns \$120,000 per year, placing them in the 37% tax bracket (39% including Medicare levy).

Property Scenario

Item	Value
Purchase Price	\$850,000
Loan Amount (80% LVR)	\$680,000
Interest Rate	5.50%
Annual Interest	\$37,400
Build Cost (for depreciation)	\$400,000
Annual Rental Income (4.1% yield)	\$35,100
Annual Expenses (interest, rates, insurance, mgmt)	\$46,903
Cash Loss Before Tax	-\$11,803
Year 1 Depreciation	\$18,500

Tax Impact - Year 1

	Without Depreciation	With Depreciation
Deductible Loss	-\$11,803	-\$30,303
Tax Refund (@ 39%)	\$4,603	\$11,818
Net Annual Cost	-\$7,200	\$0
Net Weekly Cost	-\$138/wk	\$0/wk

Key Takeaway: Depreciation transforms this property from costing \$138 per week to hold into a zero-cost investment in Year 1 — a saving of \$7,215 per year. This is money returned to you through your tax refund without spending a single additional dollar.



Maximising Your Depreciation

Strategies to get the most from your depreciation deductions

Not all properties deliver the same depreciation benefits. Changes to legislation in May 2017 removed the ability to claim Division 40 (Plant & Equipment) deductions on second-hand assets. Understanding how to structure your investment to maximise depreciation is critical to optimising cash flow.

Commission a Tax Depreciation Schedule

Engage a qualified quantity surveyor to prepare a comprehensive depreciation schedule for your property. The cost (typically \$600-\$800) is itself tax-deductible and will identify every claimable item across both Division 43 and Division 40.

Purchase New or Near-New Properties

Brand new properties maximise both Division 43 and Division 40 deductions. New builds typically deliver \$15,000-\$20,000+ in Year 1 depreciation, compared to \$5,000-\$10,000 for older properties where Division 40 items are not claimable.

Understand the 2017 Legislative Changes

Since May 2017, investors purchasing second-hand residential properties cannot claim Division 40 deductions on existing plant and equipment. Only the original owner or items installed new by the investor are eligible.

Keep Records of Renovations

If you improve or renovate an existing investment property, the new fixtures, fittings, and structural improvements are claimable. Maintain detailed records of all renovation expenditure.

Review Your Schedule Annually

Depreciation schedules should be reviewed when you make changes to the property. New appliances, air conditioning replacements, or bathroom renovations all create new claimable items.



How Optio Helps You

Depreciation-optimised property investment strategies

At Optio Property, depreciation is a core consideration in every investment strategy we build. We don't just find properties — we model the full cash flow picture including depreciation, tax benefits, rental yield, and holding costs to ensure every investment works for you from day one.

Cash Flow Modelling

Every property recommendation includes detailed cash flow forecasting with estimated depreciation benefits built into the analysis.

New-Build Focus

We prioritise new and near-new properties that maximise depreciation deductions and deliver the strongest after-tax cash flow.

Quantity Surveyor Coordination

We coordinate with trusted quantity surveyors to ensure your depreciation schedule is completed promptly after settlement.

Ongoing Tax Strategy

Through our alliance partner network, we connect you with accountants and tax advisers who specialise in property investment.



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the Next Step?**

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