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Selling a Rental Property

When a rental property is sold, in most cases the sale price of the property will include depreciable assets (e.g. carpets, curtains, hot water system, cooktop, oven etc). It is often the case that sale contract does not allocate the sale price between the house/land and the depreciable assets at all, or in some cases the contract will only specify a total amount for depreciable assets.

Despite the above it is necessary for the vendor to determine how much of the sale price relates to the property itself, and to **each depreciable asset.**

Essentially the vendor will need to provide relevant market values for the separate assets at the time of making the contract.

In determining market value the ATO advises that a taxpayer can effectively adopt one of the following options:

1. Obtain a detailed valuation from a **registered valuer**
2. Compute their **own valuation** based on reasonably objective and supportable data. The ATO have previously advised that:
   a. The cost of an equivalent new asset cannot simply be used to determine the reasonable value of a second-hand asset; and
   b. Any reasonable value should reflect the age and condition of the asset.

   (TD 98/24 states: "it should be noted that the written down values of depreciable assets are not necessarily their market values")

The information above is required to calculate any balancing adjustments on depreciable assets. E.g. A Stove may be valued at $600 on purchase (by a quantity surveyor) but have a depreciated adjustable value of $400 upon sale. If upon sale the market value of the stove is $450, then $50 is added to your income as an adjustment. Likewise, if the market value is $350, then $50 is deducted.

Effect on Capital Gains Tax Calculations

Essentially the total cost of all depreciable assets upon purchase are deducted from the purchase price, and the market value of the depreciable assets are deducted from the sale price to be treated as explained above. Capital Gains tax is calculated on the remainder (subject to other expenses and writebacks applicable)

Basic Example *(This is for illustrative purposes only and does not include building cost write-off or discount capital gains calculations)*

John purchases a property for $150,000 which includes $10,000 of depreciable assets (each asset is valued in a report by a quantity surveyor). He then sells it a few years later for $200,000 including $7,000 of depreciable assets (with market values of each asset determined by a valuer).

Capital proceeds (i.e. $200,000 - $7,000)	$193,000
Less: Cost base ($150,000 - $10,000)	$140,000
Basic Capital Gain	$53,000

(As discussed above separate calculations will be made for the balancing adjustment based on the difference between the assets market values and the depreciated adjustable value)

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