

# Real estate depreciation: A smart way for property investors to reduce tax bills?

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Meera Soni, 35, a doctor, owns a two-storey building in Pune. She uses the ground floor as her clinic and lives on the upper floor. The total value of the property, excluding the land value, is ₹80 lakh. Since half of the property is used for professional purposes, she can claim depreciation on that portion at 5 per cent per year under the Income Tax Act. This means she can deduct ₹2 lakh (10% of ₹40 lakh) from her taxable professional income, effectively reducing her overall tax liability for the year.



Real estate depreciation functions as a tax shield by allowing investors to deduct the property's value loss from their taxable income. (Picture for representational purposes only) (Pexels Photo)

## Residential and commercial properties can both offer tax benefits

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Real estate depreciation functions as a tax shield by allowing investors to deduct the property's value loss from their taxable income. "In India, the Income Tax Act allows for various rates, such as 5% for residential, 10% for commercial, and around 40% for temporary or special-purpose buildings. This reduces taxable profits, which lowers the investor's tax burden," says Niresh Maheshwari, chartered accountant and director, Wealth Wisdom India, an investment management firm.

Both residential and commercial properties qualify for depreciation if used for business or a profession. "If it is partly used for business and partly used for personal use, depreciation can only be claimed proportionate to the business

use. Depreciation can only be claimed up to the useful life of the asset,” says Sherry Goyal, Associate Partner, DMD Advocates, a law firm.

For example, professionals such as lawyers, doctors, and chartered accountants can use residential property to run their practices and thus claim depreciation on such residential property.

A property is classified as residential if at least two-thirds (66.66%) of its total built-up area is used for residential purposes. Hotels and boarding houses, however, are not counted as residential buildings. For Soni, because the property does not meet the 66.66% threshold for residential classification, the ground-floor clinic is treated as a commercial property for tax purposes, allowing her to claim 10% depreciation on the ₹40 lakh business portion.

“Any fittings and fixtures can get 10% depreciation, and certain other things, such as computer software, computers, and laptops, can get 40% depreciation,” says Himanshu Sinha, Partner- Tax Practice, Trilegal, a law firm. Furniture and fixtures are eligible for depreciation only if they are used for business purposes/professions.

## **The tax trade-off: Lower annual tax, higher capital gains**

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From a taxation perspective, the value of a [commercial property depreciates](#) over time, and the depreciation claimed each year helps reduce taxable income. However, when the property is sold, this depreciation affects the calculation of capital gains.

“Under Section 50 of the Income Tax Act, any gain arising from the sale of a depreciable asset, such as a commercial building, is treated as a short-term capital gain (STCG), regardless of the holding period. This is because the depreciation claimed over the years reduces the property’s written-down value (WDV), effectively increasing the gain on sale,” says Maheshwari.

“This would result in a higher tax rate applicable to the investor i.e., 22% to 30% as against the long-term capital gains tax rate of 12.5% (plus surcharge and cess),” says Sinha.

## **Mistakes to avoid**

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Some of the common mistakes are not maintaining proper [documentation](#) for the purchase and usage and not claiming depreciation in the case of leased assets (as the Supreme Court in the case of Mysore Minerals considers actual use and beneficial ownership instead of formal title).

"Not excluding cost of land while calculating the depreciation and not claiming depreciation in proportion to use for business purposes are also mistakes to avoid," says Goyal.

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Q. Have you utilized property depreciation for tax benefits?

Q. Do you currently claim depreciation on your property for tax purposes?