

# MAVERICK™

BMT Tax Depreciation  
QUANTITY SURVEYORS

BMT & ASSOC  
QUANTITY SURVEYORS

Bi - annual Publication

Issue 30 Summer 2011-2012



Inside this Issue

- The Great Division: Division 40 vs Division 43
- New Tax Ruling Released
- Social Media and BMT
- Accountants News
- Commercial Tenants can Claim Property Depreciation
- Building an Investment Property - Make Sure you get the Right Advice!
- Construction Costs

## The Great Division: Division 40 vs Division 43

Maximising property depreciation deductions requires a clear understanding of how the different parts of a rental property qualify for Division 40 or Division 43. A property depreciation report needs to be structured so that deductions are maximised and accelerated when needed. This is achieved by creating an effective balance between assets that qualify for Division 40 and Division 43. Here at BMT Tax Depreciation our job is to identify as many items as possible that will depreciate at a faster rate. Creating this balance will magnify a property investor's deductions, putting more cash into their pockets sooner.

### Division 40

Division 40 is the legislation that covers the depreciation of 'plant and equipment', i.e. the removable fixtures and fittings within an investment property. Each plant and equipment item has an effective life set by the Australian Taxation Office (ATO) and the depreciation deduction available on that item is calculated using this effective life.

Some of the Division 40 items commonly found within a property include:

- hot water service
- ceiling fans
- dishwashers
- carpet
- blinds
- exhaust fans
- washing machines
- solar panels
- ovens
- furniture
- rangehoods
- smoke alarms
- air conditioners
- light shades
- microwaves
- garbage bins
- vinyl
- floating timber floors
- clothes dryers
- freestanding spa
- curtains
- security systems
- cooktops
- bathroom accessories

### Division 43

Otherwise known as 'Capital Works Allowance' or 'Building Write-Off', Division 43 covers the deduction available to owners for the structural elements of a building and the items within the property that are deemed irremovable. It includes the foundations, walls, ceiling, roof and also includes fixed assets like tiles, toilets, built-in cupboards, windows and doors. Properties qualify for this allowance depending on their age and type; either 2.5% or 4% of a property's historical construction cost or estimated cost can be claimed by a relevant professional such as a Quantity Surveyor.

### The Great Division

The main difference between Division 40 and Division 43 is that Division 40 items depreciate faster. For example, while the building structure (Division 43) can be claimed at a rate of 2.5% over 40 years, carpet (Division 40) in a residential property depreciates at a rate of 20% over 10 years (using the diminishing value method).

Some items can create confusion when categorising them into a Division 40 or Division 43 deduction. For example, an air conditioning unit will fall under Division 40, whereas the ducting throughout the house for the same air conditioner falls under Division 43. A swimming pool falls under the Division 43 allowance, however, the pumps for the pool qualify for Division 40.

When these assets are not classified properly, money is lost in the first 5 financial years. We often see the obvious assets classified as Division 40 and the more inconspicuous items sometimes missed. This means they get combined with Division 43 and claimed at 2.5% rather than the much higher rate based upon their effective life, which could mean a difference of thousands of dollars in the property investor's pocket.

Following are some examples of Division 40 and Division 43 items found inside and outside of a normal home.

### Division 40

- Outdoor Furniture
- Garden Hose
- Solar Panels
- Garbage Bin

### Division 43

- Building Structure
- Fencing
- Letterbox
- Deck
- Down Pipe



OUTSIDE

### Division 40

- Ceiling Fan
- Furniture
- Rug
- Smoke Alarms
- Air Conditioning Unit

### Division 43

- Plaster Ceilings
- Wooden Louvres
- Fixed Timber Floor
- Air Conditioning Ducting



INSIDE - LOUNGE ROOM

continued over page



It is vital that a specialist Quantity Surveyor completes your property Tax Depreciation Report so you can be sure that your claim is maximised within ATO guidelines. Creating the correct balance between Division 40 and Division 43 is a critical aspect of maximising your deductions. If you are unsure, call BMT Tax Depreciation today for a free, no obligation assessment for your current depreciation claim.

## New Tax Ruling Released

In June 2011, the Australian Taxation Office released Tax Ruling 2011/2, in force from July 1, 2011. This Ruling outlines the methodology used by the Commissioner of Taxation in establishing the effective life of depreciating assets. The ruling replaces Taxation Ruling 2010/2, which was withdrawn from July 2011.

Changes were made in the following areas:

- Automotive and heavy vehicle repair and maintenance assets;
- Bus and truck manufacturing assets;
- Cement manufacturing assets;
- Clay brick and paver manufacturing assets;
- Concrete block, brick and paver manufacturing assets;
- Courier pick-up and delivery services assets;
- Dry cleaning and laundry assets;
- Industrial gas manufacturing assets;
- Iron and steel manufacturing assets;
- Steel railway track product manufacturing assets;
- Tin-plating mill assets;
- Motor vehicle tyre or tube retailing assets;
- Plasterboard and cornice manufacturing assets;
- Solar photovoltaic electricity generating system assets;
- Sugar milling assets;
- Sugar refining assets; and
- Warehouse and distribution centre equipment and machines.

If you or your clients own any of the above assets, make sure you check the relevant changes or contact BMT Tax Depreciation for more information.

Source: [www.ato.gov.au](http://www.ato.gov.au)



## Social Media and BMT

As part of our efforts to bring interesting and educational property and tax depreciation information to Investors, Accountants and property industry professionals, BMT has recently joined the YouTube, Facebook and Twitter communities. These communication mediums allow BMT to be more connected with our clients, no matter where they are.

In addition to sharing our latest updates on the property market and interesting tax depreciation changes, we are looking forward to interacting with you and receiving your comments and questions.

### BMT launch phone app!

Following feedback from our clients and referrers, BMT has developed a new Smart Phone application. When you download our app, free of charge, you will have access to our Tax Depreciation Calculator on your phone. This will assist Accountants, Real Estate Agents and investors with estimating their depreciation entitlements.



To access the BMT phone app as well as our YouTube channel, Facebook and Twitter accounts, simply visit [www.bmtqs.com.au](http://www.bmtqs.com.au)

## ACCOUNTANT NEWS:

- BMT Tax Depreciation has added a new feature to our Capital Allowance and Tax Depreciation Reports. The report now shows asset totals that are grouped based upon their rate of depreciation.
- BMT Tax Depreciation Reports will be provided to Accountants in Excel format, so that the figures from the report can be easily imported into accounting software, saving time. Stay tuned!



## Commercial Tenants can Claim Property Depreciation

### Did you know that you can claim depreciation on your commercial fit-out?

Most people would know that building owners can claim depreciation, but tenants can also claim. Commercial tenants often spend money fitting out their space. Basically, if you pay for the fit-out you are entitled to depreciate it! BMT can complete a site inspection of your business, identify what can be claimed and prepare a report that shows what you can claim each year.

If you purchase a business with an existing fit-out, BMT can also value the business assets and calculate your depreciation. Common fit-out can include:

- Alarms
- Ceilings
- Carpets
- Signage
- Office Partitioning
- Mezzanines
- Furniture
- Lights
- Computers
- Kitchens

We will work with your accountant to ensure we maximise your claim.

Call BMT Tax Depreciation today to discuss how we can help!



#### Estimated first full year's depreciation of fit-out:

Purchase a 100m2 retail business	\$9,000 - \$10,000
Brand new \$400,000 office fit-out	\$15,000 - \$18,000
Purchase the Leasehold of a 12 room hotel/pub	\$150,000 - \$200,000

## Building an Investment Property – Make Sure you get the Right Advice!

Deciding to build an investment property or to purchase off the plan is a choice many Australians are making. There are government incentives in most states in the form of reduced stamp duty and bonuses available for qualifying new homes.

The depreciation situation changes when dealing with a brand new property, compared to an older property. There are often benefits gained from obtaining advice from a property depreciation specialist during the early planning stage, especially when considering a brand new investment property.

#### Increase deductions when deciding on finishes

BMT Tax Depreciation will help you obtain long term value from the money you are outlaying. Construction is expensive, so it makes financial sense to obtain the maximum depreciation benefit where possible.

When a property is being built, thinking about the types of fittings and fixtures before installing them can generate extra dollars in depreciation deductions. BMT Tax Depreciation can advise you how to maximise the cash flow potential of a new investment property.

For example, which new floor covering should you install to increase your depreciation potential - carpet, floating timber floorboards or tiles? The depreciation available on these items differs due to their varying effective lives. If you spend \$2000 on floor coverings, for example:

Item	Effective Life	Depreciation 1st Year
Carpet	10 years	\$400 ✓
Floating Timber Floorboards	15 years	\$267
Tiles	40 years	\$50

#### Considering ornamental light fittings or down lights?

If you spend \$2000 on lighting, for example:

Item	Effective Life	Depreciation 1st Year
Ornamental Light Fittings	5 years	\$800 ✓
Down Lights	40 years	\$50

#### Deciding between an air conditioning unit and ducted air conditioning?

If you spend \$5000 on cooling, for example:

Item	Effective Life	Depreciation 1st Year
Air Conditioner - Split System	10 years	\$1000 ✓
Ducted Air Conditioning Unit	15 years	\$667

(Figures based on Diminishing Value method using current legislation)

As shown in the above examples, installing assets for their depreciation potential is certainly worthwhile.

#### STOP: Knock down and rebuild – write the old house off!

When building a new investment property and knocking down the old house, you must consider the concept of scrapping. Property investors can claim a deduction for the existing house. If you 'scrap' (or remove) items such as carpet, stoves, hot water services or air conditioning units from your old house, you may be able to claim their left over value as a 100% tax deduction in the year of removal. The same applies to the qualifying structural element of the property. Obtaining a Tax Depreciation Report pre-demolition can save you thousands at tax time.

#### WAIT: You know the construction cost? BMT can still help!

When depreciating a new property, establishing the total cost of construction is an important part of the process. However, it is critical that individual fixtures and fittings within the property that depreciate faster than the building are identified and the claim maximised. Most of the building is claimed at 2.5% per year for 40 years, however the qualifying fixtures and fittings (up to 25% of the total construction cost) can be written off much faster. It is our aim to depreciate the building at the highest rate. The greater the ratio of fixtures and fittings that depreciate over a shorter effective life, the higher the deductions will be in the first 5 years.

It is also important to note that when valuing fixtures and fittings for depreciation purposes, a specialist needs to consider and include associated costs like installation, consultant fees and preliminary costs.



If you are purchasing off the plan or building an investment property call BMT Tax Depreciation today for free over the phone advice.

# Construction Costs Per Square Metre - Sydney

## Construction Type

	Low	Medium	High
<b>House</b>			
3br brick veneer project home, level block, single level, shelf design.....	\$1,010	\$1,250	\$1,630
3br full brick project home, level block, single level, shelf design.....	\$1,040	\$1,320	\$1,670
4br brick veneer home, level block, single level, unique design.....	\$1,570	\$1,750	\$1,890
4br full brick home, level block, single level, unique design.....	\$1,640	\$1,810	\$2,010
3br brick veneer project home, level block, two level, shelf design.....	\$1,060	\$1,310	\$1,710
3br full brick project home, level block, two level, shelf design.....	\$1,090	\$1,380	\$1,760
4br brick veneer home, level block, two level, unique design.....	\$1,640	\$1,830	\$1,980
4br full brick home, level block, two level, unique design.....	\$1,720	\$1,910	\$2,110
Architecturally designed executive residence.....	\$2,160	\$3,250	\$5,050
<b>Townhouse</b>			
2br, single level brick veneer townhouse, including allowance for common property.....	\$980	\$1,220	\$1,560
2br, 2 level brick veneer townhouse, including allowance for common property.....	\$1,190	\$1,320	\$1,710
3br, single level brick veneer townhouse, including allowance for common property.....	\$970	\$1,210	\$1,550
3br, 2 level brick veneer townhouse, including allowance for common property.....	\$1,300	\$1,480	\$2,270
<b>Units</b>			
3 level walk-up unit complex, concrete structure, ground floor parking.....	\$1,460	\$1,700	\$2,270
3 level walk-up unit complex, concrete structure, basement parking.....	\$1,560	\$1,780	\$2,320
4-8 level walk-up unit complex, concrete structure, ground floor parking.....	\$1,600	\$1,820	\$2,440
4-8 level walk-up unit complex, concrete structure, basement parking.....	\$1,700	\$1,920	\$2,550
8 or more level unit complex, including lift and basement car parking.....	\$1,760	\$1,970	\$3,030
<b>Commercial</b>			
1-4 level open plan offices, including A/C & lifts, excluding fit out.....	\$1,320	\$1,510	\$2,290
4-8 level open plan offices, including A/C & lifts, excluding fit out.....	\$1,570	\$1,850	\$2,400
8 levels and over, including A/C & lifts, excluding fit out.....	\$1,880	\$2,064	\$2,770
<b>Industrial</b>			
High Bay Warehouse, standard config, concrete floor, metal clad.....	\$810	\$885	\$980
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad.....	\$930	\$990	\$1,130
<b>Retail</b>			
Suburban shopping mall area including A/C.....	\$1,330	\$1,620	\$2,010
Supermarket, including A/C, excluding fit out.....	\$1,320	\$1,400	\$1,580
<b>Hotels/Motels</b>			
Single level boutique motel, including A/C, guest facilities.....	\$1,920	\$2,390	\$3,100
Single level tavern/hotel, including A/C, excluding loose item fit out.....	\$1,700	\$2,050	\$2,270

The above rates are exclusive of GST. Please visit [www.bmtqs.com.au](http://www.bmtqs.com.au) for more information.



Please visit  
[www.bmtqs.com.au](http://www.bmtqs.com.au)  
for more information  
on tax depreciation and  
construction costs, including  
our calculators and previous  
publications!



## Regional Variations

Cairns	115 - 130%
Brisbane	105 - 115%
Sydney	100%
Canberra	96 - 104%
Melbourne	98 - 108%
Hobart	87 - 97%
Adelaide	98 - 110%
Perth	100 - 120%

If your development is not located in Sydney, you can still estimate the construction cost of a development by applying a regional variation percentage. Simply multiply the construction cost by the regional variation percentage. This will give you an approximate cost for the construction type per square metre in your area.

**BMT Tax Depreciation**  
QUANTITY SURVEYORS

**BMT & ASSOC**  
QUANTITY SURVEYORS

### Sydney

Level 20, Tower 2, Darling Park  
201 Sussex Street Sydney NSW 2000  
PO Box N314 Grosvenor Place 1220  
Ph: 02 9221 9922 Fax: 02 9241 6499

### Brisbane

Level 7, 320 Adelaide Street  
GPO Box 3229 Brisbane QLD 4001  
Ph: 07 3221 9922 Fax: 07 3221 9933

### Melbourne

Level 50, 120 Collins Street  
GPO Box 4260 Melbourne VIC 3001  
Ph: 03 9654 2233 Fax: 03 9654 2244

### Adelaide

Level 5, 121 King William Street  
GPO Box 1588 Adelaide SA 5001  
Ph: 08 8231 1133 Fax: 08 8231 6600

### Gold Coast

Level 9, Seabank Building  
12-14 Marine Parade  
PO Box 810 Southport QLD 4215  
Ph: 07 5526 3520 Fax: 07 5526 3521

### Cairns

181 Mulgrave Road  
PO Box 1720 Cairns QLD 4870  
Ph: 07 4031 5699 Fax: 07 4031 5799

### Newcastle

19 Brunner Road Broadmeadow  
PO Box 340 Newcastle NSW 2300  
Ph: 02 4978 6477 Fax: 02 4978 6499

### Perth

Level 28, 140 St Georges Terrace  
GPO Box 2572 Perth WA 6001  
Ph: 08 9485 2111 Fax: 08 9485 2133

### Darwin

Level 1, Paspalis Centrepoint Building  
48-50 Smith Street  
GPO Box 209 Darwin NT 0801  
Ph: 08 8941 3115 Fax: 08 8941 3116

### Canberra

Level 6, 39 London Circuit  
GPO Box 2526 Canberra ACT 2601  
Ph: 02 6257 4800 Fax: 02 6257 4811

### Hobart

Level 3, 85 Macquarie Street  
GPO Box 410 Hobart TAS 7001  
Ph: 03 6231 6966 Fax: 03 6231 6977



### Disclaimer

The Construction Costs herein are published on and should be read subject to the following conditions:

1. Construction costs are published as a matter of interest only and are not intended to be relied upon by readers. In any situations which may be similar to matters herein readers should exercise and rely upon their own judgement.
2. Neither BMT & ASSOC, BMT Tax Depreciation nor any of its officers or employees bear any responsibility for any error in the material published in this publication or in any previous publication, or for any damage or loss resulting from any reliance on any material published in this publication or in any previous publication.
3. Construction costs are not intended for tendering or pricing variations. They are average prices in the Metropolitan Area and should be adjusted with reference to specific conditions. The rates include the cost of labour and material, waste, hoisting, fixing in position and for profit. The profit allowance is based on the prevailing market conditions in each capital city.
4. These Construction Costs were produced prior to publication and due allowance should be made in this regard to the rates shown.
5. The rates exclude any allowance for Goods and Services Tax including compliance cost. Costs exclude land, demolition and any work outside the footprint of the building.
6. The BMT & ASSOC and BMT Tax Depreciation privacy policy has been amended. Please refer to our website for a copy of the updated policy. This newsletter is issued as a helpful guide and is not intended to, and does not cover all aspects of the topics discussed. Professional advice should be sought before any action upon these topics is undertaken.