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BMT Tax Depreciation
QUANTITY SURVEYORS

BMT & ASSOC
QUANTITY SURVEYORS

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Claim $4,852 in Twenty-nine Days

Boost Cash Flow Immediately Upon Purchase

Even if a property is purchased towards the end of a financial year, a tax depreciation specialist can provide valuable deductions in this short time.

To maximise the depreciation benefit of a newly purchased investment property, owners should obtain a property depreciation report leading up to settlement.

If a property has been owned and rented for only a short period, investors often postpone obtaining a depreciation schedule until the next year. However, there are ways in which partial year deductions can be maximised, resulting in extra cash for the owner!

Usually, the total depreciation available in the first financial year is adjusted according to the portion of the year the property is owned. For example, if a property is owned for six months, then 50% of the depreciation could become available. However, specialist quantity surveyors can use legislative tools to make partial year claims more beneficial to property owners, regardless of the time a property is owned and rented.

Immediate write-off is one tool used. Any item within a property, costing less than $300, can be immediately written off within the first year. This is regardless of how many days the property is owned in that year.

Low-value pooling can also be used to maximise claims over a short period of time. Low-value pooling applies to items in an investment property that are worth less than $1,000. Placing items in a low-value pool allows the owner to accelerate the rate of depreciation, increasing deductions earlier.

A high quality depreciation report should include a partial year claim based on the time the property is rented.

Example

The following example shows how the partial year portion of a BMT Tax Depreciation report can maximise a property owner's deductions.

A house purchased for $550,000 is rented starting from June 2nd. The table below shows a summary of the deductions available to the owners after renting the property for only twenty-nine days of the financial year.

Depreciation Claimed in 1st 29 Days	
Plant & equipment	$4,082
Capital works allowance	$770
Total claim in 29 days	**$4,852**

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Including the capital works allowance and all plant and equipment deductions, the owner claimed back $4,852 for the first financial year. Even though the property was only owned and rented for twenty-nine days, substantial deductions were found. In a BMT report, the partial year claim is listed in a separate column, making the process simple for accountants.

The plant and equipment deductions for the first twenty-nine days totalled $4,082. By using the immediate write-off allowance for items costing less than $300, BMT was able to find $1,288 for this property owner. From low-value pooled items, the owner was able to claim back $2,274. The remaining items were depreciated using their effective lives and scaled down based upon the small portion of the first financial year. They account for the remaining $520 in deductions.

This example shows that even when owning and renting a property for a few weeks of the financial year, claiming depreciation makes a significant difference to the owner's tax deductions. By utilising the legislation available through the Australian Taxation Office, depreciation claims can be truly maximised for the first partial year. Even if a property is purchased just before the end of the financial year, owners should seek the services of a specialist quantity surveyor to accelerate the depreciation benefits.

Understand Low-value Pooling

A tool used to increase wealth and maximise property deductions.

Low-value pooling is a method of depreciating plant items at a higher rate to maximise deductions. The following categories of assets can be allocated into a low-value pool to increase the owner's cash return:

- Low-cost assets – A low-cost asset is a depreciable asset that has an opening value of less than $1,000 in the year of acquisition.
- Low-value assets – A low-value asset is a depreciable asset that has a written down value of less than $1,000. That is, the value of the asset is greater than $1,000 in the year of acquisition. However, the remaining value after previous years' depreciation is less than $1,000. Assets meeting this classification are placed in an itemised, low-value pool. An example could include a hot water system valued at $1,100. In the second financial year after installation, the asset would have depreciated to a written down value less than $1,000, which would make it eligible to be placed in the low-value pool.

Low-value pooling can help investors improve cash flow

Property investors who place assets in the low-value pool are able to claim them at a rate of 18.75% in the year of purchase, regardless of how long the property has been owned and rented. From the second year onwards the remaining balance of the item can be claimed at a rate of 37.5%. This rule allows for an increased depreciation deduction on qualifying assets.

Assets which form part of a group with a total cost exceeding $1,000 can cause confusion. For example, if a house has a set of six blinds costing around $3,000, it would seem that the set does not qualify for the extra depreciation available in the low-value pool. However, these blinds can be depreciated at the higher rate as they qualify for the low-value pool as individual items.

A BMT Tax Depreciation report will always use low-value pooling to increase the rate of depreciation, boosting the cash return earlier for the property owner.

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Residential 4% Ends Soon

Act now for a capital works claim - time is almost up!

On the 18th of July 1985, the Australian Taxation Office introduced legislation which allowed property investors to claim capital works allowance (Division 43), commonly known as building write-off, on residential properties.

Essentially, this write-off allows residential property investors to claim a deduction for the wear and tear on the structural element of a building including items that are fixed to the structure.

Building write-off can be claimed at 4% over twenty-five years for structures which commenced construction between 18/7/1985 and 16/9/1987. After this date the allowance adjusts to a rate of 2.5% over forty years.

The 4% capital works allowance will soon be exhausted for properties which fall within these dates!

For example, on the 1st of July 2010 a property investor purchased a residential property that commenced construction on the 1st of October 1986 and was completed on the 1st of April 1987.

BMT Tax Depreciation was able to determine that the original construction qualified for the 4% building write-off. There was also a small $50,000 extension which took place in 1995 that qualified for the 2.5% claim resulting in a $1,250 deduction per year.

The investor was able to claim 4% of the historical construction cost, which was estimated at $180,000, excluding plant and equipment. This worked out to be $7,200 in building write-off deductions in the first year of ownership plus the $1,250 available for the extension. In the second year the owner was able to claim the final remaining portion of the original building write-off. In the third year there will be no original building write-off remaining. However, the $1,250 deduction available for the $50,000 extension will continue through to 2035. In addition, the depreciation available on the plant and equipment will also continue as can be seen in the table below.

Deductions Available Each Year

Financial Year	2010 /2011	2011 /2012	2012 /2013
Capital allowance (4%)	$7,200	$5,400	Nil
Capital allowance additions (2.5%)	$1,250	$1,250	$1,250
Plant and equipment	$6,700	$5,900	$5,200
Total depreciable amount	**$15,150**	**$12,550**	**$6,450**

When purchasing an investment property, checking into the remaining building write-off will impact on the depreciation deductions and therefore, the property's cash flow potential. If unsure, simply call BMT Tax Depreciation and one of our property depreciation experts will be able to assist.

Taxation Ruling 2012/2

New Effective Lives

The Australian Taxation Office has released a new tax ruling effective from the 1st of July 2012.

Replacing Tax Ruling 2011/2, Tax Ruling 2012/2 explains the method to be used when determining the effective lives of depreciating assets. The tax ruling in effect at the time an asset is acquired determines the effective life of that asset. For this reason, despite the new changes, determinations previously approved can continue to be used.

While many assets have not been affected, changes have been made to the effective lives of assets in the following industries:

- Animal feed manufacturing;
- Coffee manufacturing;
- Concrete producing manufacturing;
- Concrete product manufacturing;
- Edible oil or fat (blended) manufacturing;
- Ethanol manufacturing;
- Frozen pre-prepared meals and selected snacks manufacturing;
- Health and fitness centre operations;
- Motor vehicle manufacturing;
- Radio broadcasting;
- Steel coil roll forming, slitting, blanking and sheet metal forming;
- Sheet metal tank manufacturing; and
- Tea manufacturing.

BMT Tax Depreciation prepares depreciation reports for a wide range of commercial sectors. For any queries regarding claiming depreciation in these industries, please do not hesitate to contact BMT for further information. Please email newruling@bmtqs.com.au if you would like to receive a copy of this new ruling.

Share the Benefits of a Split Depreciation Report

Last year approximately half of the depreciation reports completed by BMT were for more than one owner.

Ownership structures influence how depreciation deductions are calculated. Properties with multiple owners can create a complex tax situation. A BMT Tax Depreciation report makes life easier for accountants by splitting depreciation deductions. This ensures investors' claims are maximised for any percentage combination of ownership.

When applying depreciation legislation to assets for properties with multiple owners, the cost qualification threshold depends on each owner's interest in the asset. For example, assets valued at less than $300 are usually written off immediately. However, in a 50:50 ownership situation, items under $600 can be written off immediately. Similarly, assets must be valued at less than $1,000 to qualify for the low-value pool for properties with a single owner. In a 50:50 ownership situation, items that are valued under $2,000 will qualify for accelerated depreciation.

Multiple Owners Case Study

Two friends purchase a property with a 50:50 ownership share. This example highlights the difference between simply halving the deductions and ensuring legislation is applied to each individual's depreciation claim considering the 50:50 split.

After listing ten fixtures normally found in a residential property with a total value of $27,462, BMT Tax Depreciation conducted an assessment on the deductions.

Deduction Assessment

	Without 50:50 Split	With 50:50 Split Report
Year 1	$5,547	$6,039
Year 2	$4,628	$4,671
Year 3	$3,763	$4,600
Year 4	$2,871	$3,211
Year 5	$2,213	$2,600
Total deductions	**$19,022**	**$21,121**

The situations are identical except the BMT 50:50 split concept has been applied in the second scenario. This has allowed for accelerated depreciation by qualifying more assets for immediate write-off and the low-value pool. BMT's 50:50 split report would create an additional $2,099 in tax deductions. BMT Tax Depreciation are leading the way with this new approach to preparing depreciation reports. BMT can take into account any number of owners and ownership percentages from two owners at 60:40 to 1:99 or even four owners at 70:15:10:5.

For owners with lower percentages of ownership, the low-value pool and immediate write-off will apply to more assets, increasing deductions earlier.

Outdoor Appreciation Increases Depreciation

Claim deductions on outdoor assets and save.

When it comes to claiming depreciation on investment properties, many investors are unaware of the deductions available on outdoor structures, fixtures and fittings.

Items outside a building can add value to a property. Rather than ignoring the street appeal, investors can include items in the yard or outdoor area to help attract potential tenants. The investor can then maximise their deductions by claiming depreciation on the eligible items in the front yard, backyard and balconies of their properties.

Deductions can be claimed on these outdoor assets as either capital works allowance or plant and equipment depreciation.

Capital works allowance, also known as building write-off, is based on the historical cost of a structure, excluding the cost of plant and non-eligible items. Outdoor structures which qualify for the capital works allowance include:

Outdoor Structures Capital Works Allowance		
Outdoor Item	Approximate Cost	1st Full Year Deduction
Retaining wall	$10,000	$250
Fencing	$5,000	$125
Sleepers	$3,000	$75
Concrete slabs	$6,000	$150
Patio	$4,520	$113
Clothes line	$400	$10
In-ground pool	$45,000	$1,125
Above ground pool	$20,000	$500

Plant and equipment items, including removable or mechanical assets, are also eligible for depreciation deductions. Each plant and equipment item has an effective life set by the Australian Taxation Office.

The depreciation available on each item is calculated using this effective life. Some depreciable outdoor plant and equipment items commonly found outside a property include:

Outdoor Plant and Equipment		
Outdoor Item	Approximate Cost	1st Full Year Deduction
Outdoor furniture	$4,000	$1,600
Garden shed	$950	$178
Garden hose	$80	$80
Solar lights	$250	$250
Pool filters & pumps	$3,000	$750
Garden watering system	$800	$150

*This example uses the diminishing value method of depreciation; it utilises the low-value pool and immediate write-off.

Assets outside a property can be worth thousands of dollars. Investors should take special notice when old assets including retaining walls, garden sheds and driveways are removed and replaced during a renovation. They may be entitled to claim 100% of the unclaimed value as a deduction. A specialist quantity surveyor is qualified to calculate values and construction costs of these items and can ensure that investors are not throwing dollars away!

BMT Update

Maximising the cash return from investment properties for over fifteen years.

BMT Tax Depreciation has recently celebrated fifteen years of business. We have enjoyed working with our clients and partners, fulfilling our mission to provide outstanding customer service over this time. We look forward to maximising depreciation deductions for future generations of investors. We are grateful for the support we have received and look forward to strengthening these relationships in the coming years.

Thank you for your support!

Join the conversation

Construction Costs

Including Regional Variations

If your development is not located in Sydney, you can still use these rates as a guide by applying a regional variation percentage. Simply multiply the construction cost by the regional variations opposite. This will give you an approximate cost for the construction type per square metre in your area.

Regional Variations

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

Construction Type / Level of Finish

Construction Type	Low	Medium	High
House			
3br brick veneer project home, level block, single level, shelf design	$1,065	$1,270	$1,630
3br full brick project home, level block, single level, shelf design	$1,090	$1,305	$1,670
4br brick veneer home, level block, single level, unique design	$1,570	$1,750	$1,950
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	$1,130	$1,400	$1,790
4br brick veneer home, level block, two level, unique design	$1,700	$1,900	$2,050
4br full brick home, level block, two level, unique design	$1,780	$1,970	$2,250
Architecturally designed executive residence	$2,160	$3,250	$5,050
Townhouse			
2br, single level brick veneer townhouse, including allowance for common property	$1,250	$1,490	$1,740
2br, 2 level brick veneer townhouse, including allowance for common property	$1,350	$1,580	$1,900
3br, single level brick veneer townhouse, including allowance for common property	$1,235	$1,475	$1,725
3br, 2 level brick veneer townhouse, including allowance for common property	$1,340	$1,610	$2,270
Unit			
3 level walk-up unit complex, concrete structure, ground floor parking	$1,650	$1,820	$2,320
3 level walk-up unit complex, concrete structure, basement parking	$1,615	$1,785	$2,285
4-8 level walk-up unit complex, concrete structure, ground floor parking	$1,720	$1,950	$2,650
4-8 level walk-up unit complex, concrete structure, basement parking	$1,650	$1,920	$2,615
8 or more level unit complex, including lift and basement car parking	$1,710	$2,280	$3,030
Commercial			
1-4 level open plan offices, including A/C & lifts, excluding fit out	$1,480	$1,760	$2,290
4-8 level open plan offices, including A/C & lifts, excluding fit out	$1,620	$1,850	$2,400
8 levels and over, including A/C & lifts, excluding fit out	$1,880	$2,064	$2,770
Industrial			
High Bay Warehouse, standard config, concrete floor, metal clad	$810	$885	$980
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad	$1,050	$1,110	$1,250
Retail			
Suburban shopping mall area including A/C	$1,590	$1,810	$2,100
Supermarket, including A/C, excluding fit out	$1,380	$1,500	$1,670
Hotel/Motel			
Single level boutique motel, including A/C, guest facilities	$2,650	$3,200	$4,500
Single level tavern/hotel, including A/C, excluding loose item fit out	$1,980	$2,350	$2,650

The above rates are exclusive of GST. Please visit www.bmtqs.com.au for more information.

Sydney
Level 33, 264 George Street
Sydney NSW 2000
Ph: 02 9241 6477

Brisbane
Level 7, 320 Adelaide Street
Brisbane QLD 4000
Ph: 07 3221 9922

Gold Coast
Suite 30610, Level 6 Southport Central 3, 9 Lawson St
Southport QLD 4215
Ph: 07 5526 3520

Newcastle
19 Brunker Road
Broadmeadow 2292
Ph: 02 4978 6477

Melbourne
Level 50, 120 Collins Street
Melbourne VIC 3000
Ph: 03 9654 2233

Darwin
Level 1, Paspalis Centrepoint
48-50 Smith Street
Darwin, NT 0800
Ph: 08 8941 3115

Perth
Level 28, 140 St Georges Terrace Perth WA 6000
Ph: 08 9485 2111

Cairns
181 Mulgrave Road
Cairns QLD 4870
Ph: 07 4031 5699

Canberra
Level 6, 39 London Circuit
Canberra ACT 2600
Ph: 02 6257 4800

Adelaide
Level 5, 121 King William Street
Adelaide SA 5000
Ph: 08 8231 1133

Hobart
Hobart Corporate Centre
Level 3, 85 Macquarie Street
Hobart, TAS 7000
Ph: 03 6231 6966

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1300 728 726 info@bmtqs.com.au www.bmtqs.com.au