MAVERICK™

Issue 36 2014
Biannual Publication

FEATURED

Put an extra $190 in your pocket every fortnight

Why wait all year when deductions can be claimed as you go?

Investors often look forward to tax time. Many of the losses from holding a property can be claimed back, including interest, rates, repairs and maintenance, property management fees and depreciation deductions.

Many investors may not realise that they don't have to wait all year to benefit from the deductions available to them. Instead, they can improve their cash flow throughout the year simply by nominating to use a Pay As You Go (PAYG) withholding variation.

Introduced in July 2000, a PAYG withholding variation allows individuals to vary the amount of tax withheld by their employer in each pay to anticipate their tax liabilities. This means that they can take advantage of the deductions available to them regularly, rather than waiting until the end of a financial year for their tax refund.

By selecting a PAYG withholding variation, a property investor's expected tax refund for the financial year is estimated. This allows their employer to take less tax out of their wages.

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BMT Tax Depreciation
QUANTITY SURVEYORS

> **“** The investor could claim $13,354 in depreciation in the first full financial year. **”**

The investor owns a house purchased for $532,000 and rented for $600 per week, or $31,200 per year. Expenses for their property including interest, rates, repairs and maintenance, property management fees and insurance totalled $41,400.

An assessment of the property by BMT Tax Depreciation discovered the investor could claim $13,354 in depreciation for the property in the first full financial year.

	Without depreciation claim	With depreciation claim
Purchase price	$532,000	$532,000
Annual expenses	$41,400	$41,400
Annual rental income	$31,200	$31,200
Deductible loss (first full year)	$10,200	$10,200
Depreciation (first full year)	$0	$13,354
Total deductible loss (first full year)	**$10,200**	**$23,554**
Tax refund (37% marginal tax rate)	$3,774	$8,715
Cash difference this refund could make applying PAYG **per fortnight**	$145	$335

2014_TAL1

The depreciation deductions in this case study have been calculated based on the diminishing value method of depreciation and are based on a first full year of ownership. A marginal tax rate of 37% has been assumed.

Before claiming depreciation, the investor will receive an additional $145 per fortnight in their pay by applying the PAYG withholding variation.

By including the depreciation claim, the investor will receive $335, or an additional $190 in their fortnightly pay.

As can be seen in the example, a PAYG withholding variation will provide added flexibility for a property investor. Having access to the extra money during the year makes it easier to manage cash flow, especially when there can be surprise costs such as urgent repairs or maintenance. The additional income also gives the owner the option to invest the extra money or reduce loan liabilities.

It is important to note that submitting a PAYG withholding variation does not replace a normal tax return. A tax return still needs to be filed at the end of the year to calculate the actual amount of tax liability.

Three simple steps to set up a PAYG withholding variation

1. Contact an Accountant to make sure that a PAYG withholding variation is suitable for an individual’s circumstances. An Accountant will usually organise a PAYG withholding variation by submitting estimated financial information to the Australian Taxation Office (ATO).

2. To support a PAYG withholding variation, ask a specialist Quantity Surveyor to produce a tax depreciation schedule. This schedule will outline all current and future depreciation deductions for an investment property. The higher the depreciation deductions are, the less tax an individual needs to have taken out of their pay.

3. Once the request has been approved by the ATO, the employer will reduce the amount of tax withheld, increasing the owner’s take-home pay.

For more information email info@bmtqs.com.au

WHAT'S NEW

Construction costs at your fingertips

With BMT's Cost Calc app

BMT's Construction Cost Calculator is available as an app for both Apple and Android devices.

BMT's Cost Calc app estimates the minimum and maximum range of construction costs for a variety of building types.

Designed for use by Developers, Real Estate Agents, Property Managers and investors, the app can help with:

- Estimating home building construction costs
- Feasibility studies for a wide range of building types
- Estimating replacement costs for an insurance guide
- Calculating a construction cost range for commercial and industrial buildings

Download the app by searching for BMT in the Apple or Android apps stores or visit bmtqs.com.au/app today.

TECHNICAL

Split your costs to maximise deductions

How split schedules can help you save

With property prices steadily rising, co-ownership of property is becoming increasingly common.

Co-owning property with a friend, family member or business partner has the immediate benefit of increasing an investor's purchasing power while reducing the burden of corresponding expenses. Many investors are unaware that co-ownership can also substantially increase the depreciation deductions both owners can claim for an investment property.

BMT Tax Depreciation can provide a split depreciation schedule for any investment property that was co-purchased by multiple parties. The most common example of such an arrangement would be spouses purchasing an investment property together. A split depreciation schedule allows assets that are co-owned to be depreciated according to each owner's interest in the assets.

Many co-owners make the mistake of calculating depreciation and then splitting the deductions based on ownership percentages. However, depreciation legislation allows co-owners to split an asset's value by ownership percentage first, potentially qualifying them for higher rates of depreciation. As a result, co-owners are able to increase their deductions substantially by writing off plant and equipment items far sooner using methods such as low-value pooling and immediate write-off. BMT Tax Depreciation specialise in depreciation and are able to structure a schedule in this way to maximise deductions.

Low-value pooling

Low-value pooling is a depreciation method whereby an investor with an ownership interest in an asset of less than $1,000 in value can claim deductions at an accelerated rate of 18.75% in the year of purchase and 37.5% each year afterwards. As each investor's ownership interest may qualify for the low-value pool, co-ownership expands the number of items that can be claimed at this higher rate of depreciation.

This method of assigning ownership interest also applies when assessing which items qualify for an immediate write-off. Ordinarily an asset's value must be under $300 to be completely written off in the first year. However, co-ownership also allows for an immediate write-off to be claimed for any ownership interest which falls below this value, increasing the range of eligible assets.

The benefits of this are clear. For a property with a 50:50 ownership split, any plant and equipment items worth up to $600 can be immediately written off as a 100% tax deduction.

"Co-ownership can also substantially increase the depreciation deductions both owners can claim for an investment property."

The tables below demonstrate the impact a co-owned, non-split depreciation schedule versus a split depreciation schedule can have on an investor's deductions.

Without split depreciation schedule - 50:50 ownership interest

Asset	Total opening cost	Depreciation rate	Total first year deductions	First year deductions for each owner ($)	Second year deductions for each owner ($)
Hot water system	$1,450	16.67%	$242	$121	$101
Heat light & exhaust	$440	18.75% first year 37.5% second year onwards	$83	$41	$67

With split depreciation schedule - 50:50 ownership interest

Asset	Total opening cost	Opening cost each owner	Depreciation rate	First year deductions for each owner ($)	Second year deductions for each owner ($)
Hot water system	$1,450	$725	18.75% first year 37.5% second year onwards	$136	$221
Heat light & exhaust	$440	$220	100%	$220	N/A

2014_TAI1

Deductions in this example are based on a full financial year.

By obtaining a split depreciation schedule, the first year claim for each owner went from $162 to $356 and the second year claim went from $168 to $221.

A hot water system purchased for $1,450 is able to be depreciated using the low-value pool, greatly increasing the value of deductions. The split schedule is also able to allow the heat light and exhaust unit, valued at $440 to be written off immediately as a $220 deduction for each of the owners.

These increases in deductions are made especially significant when considering that this example only accounted for two assets, a small portion of the assets typically found in an investment property.

A split depreciation schedule is available to any investors who co-own an investment property, whether they are husband and wife, friends or business partners and for any ownership ratio. By utilising low-value pooling and immediate write-off on the many fixtures and fittings within an investment property, investors are able to discover potentially thousands of dollars of additional cash flow.

For more information visit bmtqs.com.au/depreciation or call 1300 728 726 to speak to a depreciation expert.

Most investors are under-claiming by $4,182

Maximise deductions with depreciation

According to a recent release by the Australian Taxation Office (ATO), 2.5 million property investors claimed deductions relating to their rental property in the 2011-2012 income year.

Of these investors, just over 1 million received an average capital works deduction of $2,029 while just over 1.7 million investors claimed an average deduction of $1,139 for plant and equipment, making the total average depreciation claim made by property investors in the 2011-2012 income year $3,168.

In comparison, data collected from thousands of BMT Tax Depreciation Schedules suggests the average claim should be around $10,100 in the first full financial year and $7,350 per year on average over the first ten years of owning a property.

Investors who are unsure whether they are claiming the maximum depreciation deductions available to them should call BMT Tax Depreciation on 1300 728 726 for a free assessment of their likely deductions.

Visit our blog BMT Insider for more details on the recent release by the ATO.

BMT Tax Depreciation are proud members of:

MORE FOR YOU

Hidden cash

What may commercial properties be hiding from tenants?

Property depreciation is mostly claimed by the owner of an income-producing property. It is for this reason that many commercial tenants often miss out on the hidden cash available to them through depreciation.

Commercial tenants can claim depreciation deductions based on any fit-out or plant and equipment assets that they add to the property.

Tenants can claim depreciation deductions on all fit-outs while the owner of the commercial property is simultaneously able to claim a deduction on the building and any plant and equipment items that they own.

Dependent upon lease conditions, if a tenant vacates a building and does not remove the fit-out from the building at the end of their lease, the owner of the property may be able to claim any remaining depreciation. However if a tenant's lease stipulates that the property must be returned to its original condition at the end of the lease, then the tenant can benefit from claiming any remaining depreciation on the items removed and scrapped.

It is important to consult a qualified Quantity Surveyor when dealing with commercial property depreciation to ensure that not only are maximum deductions achieved but that they are claimed correctly.

MORE FOR YOU

Check how Tax Ruling 2014/4 affects claims

The Australian Taxation Office (ATO) has released a new tax ruling effective from the 1st of July 2014.

Replacing Tax Ruling 2013/4, Tax Ruling 2014/4 explains the methods 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, any changes the ATO have made to effective lives of assets in Tax Ruling 2014/4 will only affect assets purchased and installed for use after the 1st of July 2014.

Changed industry categories

The 2014/4 Tax Ruling has resulted in a number of changes to industry category headings including:

- Hydroponics has changed to vegetable growing (under cover)
- Personal and other services has changed to funeral, crematorium and cemetery services
- Vegetable and cane growing has changed to vegetable growing (outdoors) and sugar cane growing
- Waste disposal services has changed to solid waste collection services

When determining the effective life of assets used in commercial buildings, non-residential property operators would need to refer to assets such as carpet, hot water systems and blinds on Table B. The non-residential industry category on Table A has now been populated with all the relevant assets, allowing commercial property owners and their Accountants to find the effective lives of assets easily.

New industry categories

A number of new industry categories have also been introduced. These include:

- Polymer and sheet packaging manufacturing
- Railway rolling stock manufacturing and repair services
- Ready-mixed concrete manufacturing
- Professional, scientific and technical services
- Waste remediation and materials recovery services

Table A and B: removals and changes to effective lives

Tax Ruling 2014/4 has seen a number of assets removed from or changed in Table A or B. Examples of some assets amended include:

- Cotton sheds (humidification)
- Amenities provided for employees
- Boiler pumps
- Engines
- Plants (live or simulated)
- Turnstiles

The removal of assets does not indicate that the Commissioner no longer considers these assets to be depreciable. In some cases, it has been due to the difficulties in determining an appropriate effective life that accurately reflects all the facts and circumstances particular to that asset.

Keep up to date with the effective life of depreciable assets by searching BMT Rate Finder at bmtqs.com.au/depreciation-rate-finder

For a copy of the new ruling email newrulings@bmtqs.com.au

Construction costs

Including regional variations

As per standard practice, to adjust costs for various regions 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%
Darwin	110 - 120%

Construction type

Level of finish

Construction type	Description	Low	Medium	High
House	3br weatherboard project home, level block, single level, shelf design	$1,035	$1,235	$1,590
	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 weatherboard project home, level block, single level, shelf design	$1,540	$1,715	$1,910
	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	$1,110	$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 configuration, concrete floor, metal clad	$810	$885	$980
	High bay warehouse, standard configuration, 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.

The Construction Costs are average prices in a Metropolitan Area and should be adjusted with reference to specific conditions. They are not intended to be relied upon or used for tendering or pricing variations. Construction Costs include costs of labour and materials, waste, hoisting, fixing in position and a profit allowance based on prevailing market conditions but exclude any GST, costs of land, demolition and any work outside the footprint of the building.

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