MAVERICK™

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FEATURED

Compare the pair

Case study: for $35 per week, you could own an investment property too

Owning an investment property can be far more affordable for potential investors than they think, particularly when they claim all of the tax deductions available to them.

To explain how claiming these deductions can assist an investor to purchase a property, let's examine the situation of two average Australian taxpayers; Bill who feels he currently is unable to afford an investment property and Kate, who owns one investment property.

What deductions can be claimed?

The Australian Taxation Office allows income producing property owners to claim a number of deductions for expenses involved in holding a property including property management fees, rates, interest, repairs and maintenance.

Investors are also entitled to a non-cash deduction for the wear and tear which has occurred on the structure of the building and the assets contained within the property over time. This deduction is known as property depreciation.

Bill and Kate's scenario

Bill currently does not own an investment property though he would like to. He believes the cost of owning an investment property is not within his current budget.

From his $85,000 salary, he pays $20,707 in taxes after he claims basic expenses such as a clothing allowance, donations and general accounting fees.

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BMT Tax Depreciation
QUANTITY SURVEYORS

“Kate’s property is only costing her $35 per week to own.”

Use BMT’s Tax Depreciation Calculator to estimate the deductions available on any investment property. Visit bmtqs.com.au/tax-calc

Kate earns the exact same salary of $85,000. However, she saved a deposit and purchased a three bedroom rental property for $600,000 just over one year ago. Her property is rented at $545 per week, a total rental income of $28,340 per annum. The income earned from Kate’s investment property is also taxable, therefore her total combined income equals $113,340.

In addition to the same basic expenses Bill claimed, Kate is able to claim deductions for expenses involved in holding the property, including management fees, insurance, rates, interest, repairs and maintenance. These expenses for a typical three bedroom property would amount to around $39,067. Kate also spoke with BMT Tax Depreciation and obtained a depreciation schedule which showed she could claim an extra $14,200 in depreciation deductions in the first financial year.

The following table compares the pair and shows their before and after tax outcomes:

Bill (no investment property)		**Kate** (owns an investment property)	
Gross salary	$85,000	Gross salary	$85,000
Other deductible cash expenses (eg. clothing allowance, donations, basic accounting fees)	$1,000	Other deductible cash expenses (eg. clothing allowance, donations, basic accounting fees)	$1,000
Property income	$0	Property income ($545 x 52 weeks)	$28,340
Property expenses	$0	Property expenses	$39,067
Depreciation deductions (first full financial year)	$0	Depreciation deductions (first full financial year)	$14,200
Total income	$85,000	Total income	$113,340
Total deductible expenses	$1,000	Total deductible expenses (Other deductible expenses + property expenses + depreciation)	$54,267
Taxable income	**$84,000**	**Taxable income**	**$59,073**
Tax payable (including Medicare levy)	$20,707	Tax payable (including Medicare levy and low income tax offset)	$11,814
Take home income (Total income – cash expenses – property expenses - tax payable)	**$63,293**	**Take home income (Total income – cash expenses – property expenses - tax payable)**	**$61,459**

The depreciation deductions in Kate’s scenario have been calculated using the diminishing value method and are based on the first financial year of ownership. This is a generic example only. Every person’s position is different. BMT are not Accountants or Financial Advisors and recommend that you seek independent advice.

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As you can see, Bill’s take home income after he pays $20,707 in taxes is $63,293. Although Kate earns the same take home wage and is in a similar financial position to Bill, her income producing property also entitles her to claim a total of $53,267 in deductible expenses including depreciation. This further reduces her taxable income to just $59,073 making her income tax payable $11,814.

By maximising the deductions she can claim due to holding her property and claiming depreciation, Kate’s take home income is only a difference of $1,834 per year. Therefore, her property is costing $35 per week to own after tax.

Investors thinking of purchasing a property should always obtain expert advice from a specialist Quantity Surveyor on the depreciation deductions that will be available to them once they purchase a property.

This article is not intended to provide financial or taxation advice and should not be relied upon for that purpose. Investors should speak with their Financial Advisor and an Accountant to get a complete before and after picture of their individual tax situation based on their individual circumstances.

WHAT'S NEW

Apps and tools to help your investment

Accessible across desktop, mobile and tablet devices, the updated website features new information and sections including:

Investor case studies

Our case studies show how claiming depreciation will make a difference to an investor's cash flow for a variety of property types and investment scenarios.

Tools - calculators and apps

We have a range of updated tools and apps such as our Tax Depreciation Calculator, Construction Cost Calculator, Depreciation Rate Finder, Resi Rates and our property Replacement Cost Calculator, Rep Cost.

Educational information

Learn more about depreciation for residential and commercial properties on our frequently asked questions pages.

News and media

Stay up to date with what is happening with relevant property industry news. Visit the media page to see recent television, radio, print and online news BMT has been featured in.

Order educational material

You can order complimentary educational material direct from our website.

Explore the new website today at bmtqs.com.au

TECHNICAL

Missed deductions add up

Our system to maximise your claim

Closed circuit television systems, garden watering systems, intercom systems and solar powered generating systems are all assets which are often missed by property investors when claiming depreciation.

These and other missed assets such as door closers, freestanding bathroom accessories, garbage bins, shower curtains and smoke alarms are part of a list we have compiled to help investors avoid missed depreciation deductions.

Although many of these items have a low depreciable value, as shown in the following table, the depreciation deductions which can be claimed for these items can add up to thousands of dollars for an investor.

Asset	Depreciable value	Depreciation deductions - Year one
Ceiling fans	*$265	$265
Clocks - electrical	*$20	$20
Door closers	*$185	$185
Exhaust fans	*$125	$125
Freestanding bathroom accessories	*$110	$110
Garbage bins	*$250	$250
Garden sheds - freestanding	**$855	$160
Smoke alarms	*$145	$145
Closed circuit television system	$1,550	$775
Garbage disposal units	**$455	$85
Garden watering systems	**$558	$105
Intercom system	**$745	$140
Solar powered generating system assets	$5,500	$550
Spa bath pumps	**$425	$80
Window shutters - automatic	**$800	$150
Total	**$11,988**	**$3,145**

The depreciation deductions within this table have been based on the diminishing value method of depreciation and are based on a first full financial year's claim. *Assets which have a depreciable value of $300 or less can be written off as an immediate write-off in the first full financial years claim. **These assets which have a value of $1,000 or less can be added to a low-value pool and depreciated at a rate of 18.75% in the first year.

Key:	Common assets often missed	More obscure assets rarely claimed

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So here's our system to help investors ensure no item is missed and to maximise their depreciation deductions:

1. Take note of the assets included in the above table
2. If you have a depreciation schedule and you own any of these assets, confirm with your Accountant that they are included in your schedule and in your depreciation claim. If items have been missed, the Australian Taxation Office will allow you to go back and amend the previous two years of missed deductions
3. If you don't have a depreciation schedule you should talk to a specialist Quantity Surveyor as soon as possible
4. Ensure your specialist Quantity Surveyor can outline the deductions available for assets which are eligible to be written off immediately or added to the low-value pool

A specialist Quantity Surveyor will use their expert knowledge of tax legislation to ensure the maximum deductions are claimed for each individual asset.

Depreciation that's more accommodating

Owners of income producing properties can generally claim both capital works and plant and equipment deductions. However when claiming for traveller accommodation, it's even more important to seek advice from a Quantity Surveyor. The rate at which owners can claim capital works deductions for traveller accommodation vary from 2.5 per cent to 4 per cent.

The effective life and depreciation rates for assets in these properties are also generally shorter. Therefore assets found in traveller accommodation will often depreciate faster than the same asset found in a residential property.

As a result, investors often want their property to be classified as traveller accommodation to take advantage of the accelerated deductions.

To ensure deductions are claimed correctly, the Australian Taxation Office provides a definition to help determine what types of properties qualify as traveller accommodation. These are buildings intended to be used to provide short term accommodation on completion including:

- Apartment buildings in which you own and lease out at least ten apartments, units or flats
- Hotels, motels or guest houses that have at least ten bedrooms

In both cases, investors are entitled to claim capital works deductions at a rate of 2.5 per cent or 4 per cent depending on the year construction commenced.

Investors who purchase short term traveller accommodation constructed between the 16th of September 1987 and the 26th of February 1992 are eligible to claim capital works deductions at 2.5 per cent per year over forty years.

For properties constructed after the 26th of February 1992, the rate is 4 per cent per year over twenty-five years. All other types of accommodation entitle their owners to claim capital works at a rate of 2.5 per cent over forty years.

The construction completion date has no impact on your ability to claim plant and equipment deductions. These items are calculated based on their individual effective life.

Carpets are a good example of one asset which has a shorter effective life in traveller accommodation (seven years) than in residential properties (ten years).

To view a table outlining the depreciation rates for capital works in all types of investment properties visit bmtqs.com.au/tax-depreciation-schedule

New Tax Ruling 2015/2

The Australian Taxation Office has released a new tax ruling effective from the 1st of July 2015.

Replacing Tax Ruling 2014/4, Tax Ruling 2015/2 outlines the effective lives for all assets when calculating depreciation deductions for plant and equipment items.

Previously approved determinations can still be used as the tax ruling in effect at the time an asset is acquired determines the effective life used.

Industries with changed effective lives include waste collection, treatment and disposal services, postal and courier services, surveying and mapping services, machinery equipment repairs and maintenance, rental and hiring service industries and professional photographic services.

A number of assets in Table B of TR 2015/2 such as digital cameras, control cabinets and panels, levels, plumbing fixtures and fittings, taxis, motorcycles, scooters, trailers, telephone systems and fixed and rotary wing aerial vehicles now have new effective lives.

For a copy of the tax ruling which outlines all effective lives, email newruling@bmtqs.com.au or keep up to date by searching BMT Rate Finder at bmtqs.com.au/depreciation-rate-finder

Write-off up to $20,000 immediately

Deductions put more money in your budget

As part of the May 2015 federal budget the Australian Government announced that small businesses with an aggregated turnover under $2 million would be entitled to claim a $20,000 instant asset write-off.

The new $20,000 instant asset write-off means that assets up to $20,000 can be claimed as an immediate tax deduction from 7:30pm on the 12th of May 2015 until the 30th of June 2017.

Small businesses can use this instant asset write-off for any depreciable plant and equipment asset or fit-out installed in a business. Examples of deductible items which can be claimed range from office furniture, blinds, workstations and light fittings to more specific industry assets such as hospitality, medical or manufacturing equipment.

Assets acquired between the 12th of May 2015 and the 30th of June 2017 may be placed in a general small business pool and depreciated. Where the balance of the pool is less than $20,000 at the end of the financial year, the remaining un-deducted value can be claimed as a deduction in that year.

Businesses which purchased assets between the 31st of December 2013 and 1st of January 2014 are still eligible to apply the $6,500 instant asset write-off which the previous government implemented.

It is important to note that assets outside the $20,000 threshold for small business owners and tenants are still able to be claimed based on their individual depreciable rate as set by the Australian Taxation Office.

Don't fence in deductions for a farm

Rural property owners will receive $153,637 more

During the recent May 2015 federal budget, the federal government announced that farmers will be able to make additional claims from 7:30pm on the 12th of May 2015 in the form of instant deductions for fencing and water facilities.

Previously, fences depreciated over a period of thirty years, while water facilities depreciated over three years and fodder storage assets over a period of up to fifty years.

Primary producers will now be able to immediately deduct the cost of fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills. Fodder storage assets such as silos and tanks used to store grain and other animal feed will now depreciate over three years.

Many smaller farm businesses with an aggregated turnover of less than $2 million can also benefit from the budget's broader small business initiatives. Their owners can choose to use either the accelerated depreciation for primary producers or the accelerated depreciation for small businesses for each depreciating asset. For example, if a sheep farmer was to invest $19,500 on a new silo to store feed, the farmer could choose to claim an immediate deduction of $19,500 for the silo under the small business rules, rather than choosing to depreciate the asset over three years under the new rules for primary producers.

To examine the difference the recent budgetary measures will have on the depreciation deductions for a farm that qualifies as a small business, below is a comparison table of the first full financial year's deductions found for common farming assets:

Asset	Depreciable value	First year deductions (**prior** to 2015 budget changes)	First year deductions (**after** to 2015 budget changes)
Fences	*$72,000	$10,800	$72,000
Tractor	$92,000	$13,800	$13,800
Pumps	*$4,600	$690	$4,600
Water troughs	**$1,250	$188	$1,250
Irrigation assets	*$16,300	$2,445	$16,300
Silos (used for fodder storage)	**$19,500	$2,925	$19,500
Horse shelter	$48,500	$7,275	$7,275
Livestock grids	$27,600	$4,140	$4,140
Barn	$75,500	$11,325	$11,325
Forage harvester	$105,000	$15,750	$15,750
Chemical spraying assets	**$3,600	$540	$3,600
Dams	*$63,500	$9,525	*$63,500
TOTAL	**$529,350**	**$79,403**	**$233,040**

The depreciation deductions in the above scenario have been calculated using the diminishing value method and are based on a property with an aggregated turnover of less than $2 million. *Fences, dams, pumps, irrigation assets and windmills can now be applied as an immediate write-off if the asset was acquired after 7:30pm on the 12th of May 2015. **Assets with a depreciable value of less than $20,000 for a farm business with an aggregated turnover of less than $2 million can now be applied as an immediate write-off if the asset was acquired after 7:30pm on the 12th of May 2015

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As the table demonstrates, if a farmer acquires all of the above assets after the 12th of May 2015, they will be able to claim an additional $153,637 in depreciation deductions.

For further advice on how the recent federal budget changes have impacted the depreciation deductions for assets in properties used for primary production, consult with one of the expert staff at BMT Tax Depreciation or speak with your Accountant.

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		
			Low	Medium	High
	House	3br weatherboard project home, level block, single level, shelf design	$1,085	$1,245	$1,595
		3br brick veneer project home, level block, single level, shelf design	$1,130	$1,290	$1,640
		3br full brick project home, level block, single level, shelf design	$1,170	$1,330	$1,710
		4br weatherboard home, level block, single level, shelf design	$1,640	$1,750	$2,245
		4br brick veneer home, level block, single level, unique design	$1,740	$1,835	$2,370
		4br full brick home, level block, single level, unique design	$1,910	$2,230	$2,450
		3br brick veneer project home, level block, two level, shelf design	$1,175	$1,340	$1,720
		3br full brick project home, level block, two level, shelf design	$1,170	$1,440	$1,830
		4br brick veneer home, level block, two level, unique design	$1,810	$1,980	$2,270
		4br full brick home, level block, two level, unique design	$1,850	$2,030	$2,320
		Architecturally designed executive residence	$2,600	$3,450	$5,050
	Townhouse	2br, single level brick veneer townhouse, including allowance for common property	$1,535	$1,830	$2,120
		2br, 2 level brick veneer townhouse, including allowance for common property	$1,590	$1,870	$2,250
		3br, single level brick veneer townhouse, including allowance for common property	$1,505	$1,800	$2,090
		3br, 2 level brick veneer townhouse, including allowance for common property	$1,570	$1,920	$2,270
	Unit	3 level walk-up unit complex, concrete structure, ground floor parking	$1,820	$1,980	$2,480
		3 level walk-up unit complex, concrete structure, basement parking	$1,795	$1,955	$2,455
		4-8 level unit complex, including lift, concrete structure, ground floor parking	$2,090	$2,280	$2,850
		4-8 level unit complex, including lift, concrete structure, basement parking	$2,040	$2,250	$2,810
		8 or more level unit complex, including lift and basement car parking	$2,060	$2,430	$3,290
	Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	$1,890	$2,150	$2,590
		4-8 level open plan offices, including A/C & lifts, excluding fit out	$2,050	$2,240	$2,720
		8 levels and over, including A/C & lifts, excluding fit out	$2,960	$3,170	$3,350
	Industrial	High bay warehouse, standard configuration, concrete floor, metal clad	$920	$1,040	$1,130
		High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,140	$1,210	$1,360
	Retail	Suburban shopping mall area including A/C	$2,280	$2,400	$2,750
		Supermarket, including A/C, excluding fit out	$1,470	$1,590	$1,820
	Hotel / Motel	Single level boutique motel, including A/C, guest facilities	$3,000	$3,500	$4,750
		Single level tavern/hotel, including A/C, excluding loose item fit out	$2,550	$3,100	$3,800

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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