

MAVERICKTM

BMT Tax Depreciation
QUANTITY SURVEYORS

BMT & ASSOC
QUANTITY SURVEYORS

Biannual Publication

Issue 31 Winter 2012



Inside this Issue

- Claiming Depreciation Deductions on Your Own Home
- PAYG Variation
- Quantity Surveying and AVAA
- Common Property
- BMT Tax Depreciation and Social Media
- Tax Depreciation in the Palm of Your Hand



Claiming depreciation deductions on your own home

In the current economic climate, more and more home owners are renting out rooms within their house to generate extra cash. This strategy can be quite lucrative, especially when considering the extra tax deductions that become available. Even when family members pay rent, by declaring the rental income in a tax return, a portion of the expenses and depreciation may be claimed as a deduction. BMT Tax Depreciation are dedicated to helping home owners maximise their property depreciation deductions and improving their cash return.

The Australian Taxation Office (ATO) has a preferred method of calculating the proportion of expenses that can be claimed as a deduction under Taxation Ruling Number IT 2167. This ruling sets out the ATO's general approach of apportionment based upon floor areas. The ruling states that it is appropriate to add the floor area which the tenant has sole occupancy of to 50% of the general living area the tenant shares equally with the owner/occupier. It is necessary to only include general living areas the tenant has access to.

A portion of relevant property deductions can be claimed by the owner including property depreciation; which is a deduction available for the wear and tear on the fixtures, fittings and structure of a building. A portion of other expenses such as insurance, rates and the interest payments made on the mortgage of a property may also be claimed.

The following example is based on a 10 year old, 4 bedroom house with a purchase price of \$450,000 and a mortgage of \$360,000. It is assumed the property has 2 bedrooms generating income for the owner at \$100 per week per room and that the tenants use approximately 50% of the living area.

1. Income on 2 rooms & half of living areas -

Rent per room	\$100
Rent per week (2 rooms)	\$200
Number of weeks	52
Total Annual Income	\$10,400

2. Expenses/Deductions - including property depreciation, interest, rates and maintenance

Estimated property depreciation	\$8,500
Interest on mortgage	\$25,000
Rates, maintenance & incidentals	\$6,000
Total Expenses	\$39,500
50% of Total Expenses	\$19,750

In this example, an owner could expect the average depreciation over the first five years to be around \$8,500 per year. If the property was completely rented, the total deductions for the year would be \$39,500. However, as half of the property is producing income, the actual deduction available to the owner will be \$19,750.

It is important to remember that normal expenses and depreciation always exist; the difference here is that approximately half of these deductions are now claimable because part of the property is producing assessable income.

The cash flow results for this scenario are as follows:

Financial Year 1

Total income at \$200 per week for 2 rooms & living areas:	\$10,400
50% of total book loss (including interest, rates, maintenance and depreciation)	-\$19,750
Taxation loss (income - expenses)	\$9,350
Tax return calculated at the Australian tax rate of 37%	\$3,460
Total Income	\$13,860

By claiming 50% of the depreciation and other expenses, the extra tax deductions improve the owner's cash flow by \$3,460 in the first financial year.

When renting a room out in an owner occupied house, it is important to obtain a property depreciation report from a specialist Quantity Surveyor like BMT Tax Depreciation. This will ensure the tax deductions are maximised. It is also important to discuss the options available with an accountant. When a home is changed into a partial investment property, some Capital Gains Tax (CGT) may be triggered if the property is later sold. However, there are scenarios which may reduce or create a total CGT exemption depending on the property's first use, how long the property was lived in, how long it is income producing and if the owner purchases another home.

Contact BMT today to discuss any property scenario.

Disclaimer: The case study estimates shown are based on the diminishing value method of depreciation and are provided as an approximate guide, for example purposes only. BMT Tax Depreciation is not liable for any misinterpretation from this example.

Could you benefit from higher cash flow NOW?

What could you do with extra cash each fortnight?

Save on interest costs by paying a current mortgage off faster? Save more quickly for the next investment property deposit? Go on a holiday? There are so many possibilities...



Why not consider a Pay As You Go (PAYG) variation?

Often overlooked by investors, the PAYG system is a great way to increase fortnightly cash flow throughout the year. The PAYG method of tax collection was introduced in July 2000 to replace previous versions of the same system, such as pay as you earn (PAYE). The system gives the option of claiming back tax regularly, rather than in one lump sum at the end of the financial year. A PAYG variation means that the property owner's employer will reduce the amount of tax withheld to reflect set deductions like depreciation on a rental property. In essence, it is a way of decreasing the amount of tax paid by the investor each pay period.

It is important to note that submitting the PAYG 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. Your PAYG instalments for the year are credited against your assessment.

A Quantity Surveyor can provide all current and future depreciation values for investment properties in a detailed tax depreciation report. Obtaining the report immediately after the purchase of a property will allow the maximum return from a PAYG variation, as the precise figures will make the instalments accurate.

The flexibility provided to the Investor through a PAYG variation, combined with depreciation deductions identified by a Quantity Surveyor, can be of great help in managing the fortnightly cash flow of an investment property.

Let's consider a hypothetical situation:

A typical \$400,000 investment property would show an average annual loss (or deduction) of \$35,000 and an average income of \$20,000 for the first 5 years. The deductions include costs such as interest on a \$350,000 mortgage, management fees, maintenance and property depreciation. The total loss (income minus expenses) will result in a deduction for the owner of \$15,000. In the 37% tax bracket the \$15,000 deduction could generate a tax return (or credit) of \$5,550. Under a PAYG variation, the investment property owner can adjust their fortnightly pay to anticipate this return, adding \$213 to their pay packet each fortnight.

BMT Tax Depreciation are specialists at maximising tax deductions for investment properties. Talk to an accountant about a PAYG variation to increase fortnightly cash flow.



Quantity Surveying & Property Accreditation

Accreditation by relevant associations and institutes is very important for Quantity Surveyors, who specialise in property depreciation. Being active members of associations like the Australian Institute of Quantity Surveyors (AIQS), The Royal Institute of Chartered Surveyors (RICS) and The Auctioneers & Valuers Association of Australia (AVAA) gives the BMT Group and our clients the necessary support required.



As Quantity Surveyors, BMT Tax Depreciation prepare tens of thousands of property depreciation reports each year. We are recognised through Tax Ruling 97/25 as being appropriately qualified to estimate construction costs for calculating capital allowances. BMT Tax Depreciation offer more to the complete depreciation and capital allowance process. For example, we also estimate values for plant and equipment items, we calculate historical construction costs, inspect each

property and interpret various parts of the income tax assessment act.

Our accreditations provide us with the framework to maintain and set industry standards. It allows us to be recognised as the best in our field and to be a supporting voice for property depreciation. Through this accreditation we gain access to the latest information and resources.

As Quantity Surveyors accredited by the AIQS and RICS, our construction cost estimates are supported by the best industry standards. Being accredited by the AVAA ensures our valuing methodology for plant and equipment remains accurate. The AVAA are Australia's leading body who govern the valuation process and methodologies for goods, chattels as well as plant and equipment. The BMT Group upholds stringent valuing practices to maintain this accreditation.

If you have questions about our qualifications or a particular property depreciation scenario, please do not hesitate to contact your local BMT office. BMT Tax Depreciation only prepare property depreciation reports (we do not provide land property valuations). We always ensure our clients receive every legitimate depreciation deduction available.



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

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

Newcastle:
19 Brunker Road, Broadmeadow
PO Box 340 Newcastle NSW 2300
Ph: 02 4978 6477

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

TAX DEPRECIATION IN THE PALM OF YOUR HAND!



The BMT Tax Depreciation Calculator is now available as a free App! The iPhone, Android and iPad versions of the App have been released and are FREE for anyone to download!

The calculator has been used by BMT clients for over nine years and provides an accurate estimate of potential property depreciation deductions available to property investors. The calculations are based on data gathered from thousands of property depreciation reports completed by BMT Tax Depreciation across Australia.

Every property investor can claim yearly deductions for the wear and tear on their building and its fittings. The **FREE** App enables accountants, real estate agents and investors to estimate how much can be claimed back on a property in **seconds**! This advanced calculator is extremely helpful for anyone involved in property investing.



To download the BMT Tax Calc App and begin calculating property depreciation deduction estimates today, simply visit www.bmtqs.com.au/app.

Are you taking full advantage of Common Property Deductions?

Common property has been identified by the Australian Taxation Office (ATO) as areas within an apartment complex or development that are shared between owners. Common areas are nominated sections of a complex which all owners are entitled to utilise.



Common property areas:

- Driveways
- Carpark areas
- Foyers
- Stairs
- BBQ areas
- Gymnasiums

Common plant & equipment:

- Lifts
- Lights
- Pools & spa pumps
- Common fire alarm systems
- Gym equipment
- Air conditioning

How do common property entitlements increase the depreciation benefit?

Unit owners can save thousands of dollars each year by claiming depreciation on common property within the apartment complex or development.

Common property depreciates in the same way as any other part of the

property. Plant & Equipment items (Division 40) in common property will depreciate according to effective lives, which are determined by the ATO. Capital Works allowance (Division 43) relates to the structural portion of common property and depreciates over 25 or 40 years, depending on the construction date. A taxpayer's percentage of ownership for common property is calculated using unit entitlements commonly found on the strata plan. The portion of a common item owned is considered an asset in its own right and is depreciated as such. Claiming a percentage of the depreciation on common property adds to the total depreciation claim.

How is a unit owner's entitlement to common property usually determined?

A unit owner's entitlement to common property correlates directly to their liability. Common property is usually apportioned depending on a number of criteria such as the size of the unit, its position in the development (penthouse or ground floor unit) and even its view. When a Land Surveyor initially draws up the plan for a development, they calculate each unit's entitlements.

BMT Tax Depreciation perform a thorough site inspection of common property areas and items. Based on relevant building plans, BMT Tax Depreciation determine the owner's entitlements. All common plant and equipment items within the development are valued and then apportioned based on the calculated entitlement. It is a complex procedure which should be handled by a specialist Quantity Surveyor.

We are happy to discuss any queries about common property depreciation.

What can you learn about property tax depreciation by following BMT Tax Depreciation on social media?

BMT post relevant, up to date information about the property industry. The latest changes from the ATO, legislation affecting property investors and housing statistics around Australia are just some of the updates we provide.

Don't miss out on the latest industry news and tips on how you can make tax depreciation work for your investment property.

Visit www.bmtqs.com.au/sm to 'like' us on Facebook (BMT Tax Depreciation), follow us on Twitter (BMT_Tax_Dep) and subscribe to our YouTube channel (BMT Tax Depreciation) today! We look forward to keeping you updated!



Construction Costs Per Square Metre - Sydney

Construction Type

House

	Low	Medium	High
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

Townhouse

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

Units

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

Commercial

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

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.....	\$930	\$990	\$1,130

Retail

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

Hotels/Motels

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 for more information.



Please visit
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 BMT & ASSOC

QUANTITY SURVEYORS

QUANTITY SURVEYORS

Sydney

Level 20, Tower 2, Darling Park
201 Sussex Street Sydney NSW 2000
PO Box N314 Grosvenor Place 1220
Ph: 02 9241 6477 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 Brunker 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

Use your smart phone to scan this QR Code



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.