bmt qs news 37

Opportunity Knocks for Developers

Depreciation Snapshot: Commercial Properties

The current economic situation has seen an increase in the turnover of commercial properties valued between $500,000 and $10 million. If you have purchased a commercial property recently you may not be fully aware of the depreciation deductions available. When maximised, depreciation can often mean that your commercial property returns a positive cash flow.

Commercial Property Scenario:

Property: A commercial property purchased for $1 million
Income: Rented for $1,730 per week; Total income of approximately $90,000 per year
Expenses: Interest, rates and management expenses approximately $85,000 per year

Scenario 1 – No depreciation claim:

Pre tax cash flow	Post tax cash flow (top tax rate of 40%)
• Cash flow $5,000 = $96 p/w	• Tax paid $2,000
Net positive cash flow for commercial property owner $3,000 = $58 p/w	

Scenario 2 – With depreciation claim:

Pre tax cash flow	Post tax cash flow (top tax rate of 40%)
• Tax depreciation $60,000	• Tax refund $22,000
• Cash flow position $5,000	• Cash flow position $22,000
• Total loss/deduction $55,000	
Net positive cash flow for commercial property owner $22,000 = $423 p/w	

In this example, the investor has approximately $365 extra a week by obtaining a BMT Tax Depreciation report.

Temporary Investment Allowance - Are you eligible to claim more deductions?

As part of its economic stimulus package, the federal government recently announced a 30% temporary investment allowance in the form of additional tax deductions on depreciable plant and equipment for businesses. The deduction is available for businesses that start to hold or start to construct an asset between December 13, 2008 and June 30, 2009.

The Rudd government estimates that this measure will cost the Commonwealth $1.6 billion and is expected to encourage Australian businesses to invest more heavily in plant and equipment assets.

The ATO website states: "The tax break, in the form of an investment allowance will provide:

- An additional tax deduction of 30 per cent of the cost of eligible new depreciating assets acquired under a contract, or started to be constructed, after 12.01am AEDT 13 December 2008 and before the end of June 2009 and installed ready for use by the end of June 2010.
- An additional tax deduction of 10 per cent of the cost of eligible new depreciating assets acquired under a contract, or started to be constructed, between 1 July 2009 and 31 December 2009 and installed ready for use by the end of December 2010.

New expenditure on existing assets may also qualify. For both periods, small businesses will be able to claim the deduction for eligible assets costing $1,000 or more. Small businesses must have a turnover of less than $2 million a year to qualify.

For other businesses, a minimum expenditure threshold of $10,000 applies."

Source: http://www.ato.gov.au/taxprofessionals/content.asp?doc=/content/00175431.htm

Some important points:

- Land and trading stock are excluded and do not qualify for the allowance
- Only Division 40 (plant and equipment) items qualify, capital works (Division 43) do not qualify for the allowance
- Assets must be installed ready for use by June 30, 2010.

BMT & ASSOC: Market Analysis

The current economic situation has seen construction costs stabilise over the last 6-12 months. BMT & ASSOC offer the following points about current and historical market conditions:

Overview – Current Market Conditions

- Credit crisis has caused a rapid decline in the funds available for construction projects;
- Corrections are being recorded in building prices as competition for projects continues to build;
- Negative sentiment has increased competition amongst builders for forward work and led to price cuts and "buying work" to secure future projects;
- Early indicators in 2009 have shown a minor surge in Development Approvals. However, these will more than likely take over 12 months to convert to construction activity;
- While DA's are being submitted, projects are invariably being held up in achieving finance as banks appetite for risk remains very low;
- There is a large backlog of approved projects ready to commence construction. This is likely to effect wholesale property prices once they are completed;
- Once more favourable conditions return, it is expected that many projects will begin construction very quickly.

Overview – Historical Market Conditions

- Construction prices have grown consistently over the past five years at approximately 6% per annum
- Major influencing factors have included;
  1. Residential boom ending in 03 – 04;
  2. Critical under supply of skilled labour effecting labour costs;
  3. International commodity prices effecting material prices – particularly services and structural trades;
  4. Continued growth in world oil and fuel prices;
  5. Legislative changes affecting building standards – BASIX for Residential (NSW) and BCA Part J for Commercial

Opportunity Knocks For Developers

With the Government introducing their "Nation Building and Jobs Plan" and construction costs appearing to stabilise and even correct across the country, more opportunities have presented for developers to enter the market.

$6.4 Billion Public and Community Housing

Federal government funding has been allocated to State and Territory governments on a per-capita basis through the National Partnership Agreement for the delivery of both social and community (affordable) housing stock. Through this initiative the Commonwealth will commit funding of $6.4 billion over the years 2008-09 to 2011-12. Over this time, around 20,000 additional social housing dwellings will be constructed, as well as the refurbishment of 2,500 existing public housing dwellings so that they can remain available for occupancy, further increasing the net social housing stock.

Developers or builders that may be interested in such an opportunity include those that have projects ready to proceed on a turnkey basis which would be suitable for social housing, those with a strong track record in housing construction and those that have land and development approval finalised or pending.

National Rental Affordability Scheme

The federal government is looking to provide 50,000 new affordable dwellings by 2012. They plan to issue affordable housing incentives valued at approx $8,000 per annum for a 10 year period. The scheme is targeted at residential developers and investment consortiums who intend to retain their stock (ideally 100 or more dwellings). Under the Scheme successful applicants will be eligible to receive the incentive for each approved dwelling, on the condition that they are rented to eligible low and moderate income households at 20 per cent below market rates.

The National Rental Affordability Scheme is looking for proposals which involve either;

- Large scale projects with a minimum of 100 rental dwellings or
- Not less than 20 rental dwellings and address especially high rental stress or deliver innovative and affordable rental housing solutions.

The Australian Financial Review (31/3/09) recently reported that community housing associations have taken the biggest share of the $623 million in funding in the first round of the scheme. A total of 3899 dwellings will be developed in the first round. In addition, 20,000 applications for the second round have already been lodged, which is well above the 11,000 dwelling target.

Should you require any further information, please contact Brad Beer, Brendan Farrugia or Tom Plenty at the office.