

MAVERICK™

BMT Tax Depreciation
QUANTITY SURVEYORS

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Visit our mobile website. Scan this code with a QR reader app on your mobile device.



Crunch the numbers and save

Want to be \$96 per week better off?

Before walking away from purchasing a first or next investment property, make sure to crunch the numbers correctly. That next bargain may actually be affordable if property depreciation is claimed.

Astute investors will usually consider the potential rental return of the property, the property's location in proximity to local services and facilities, local employment drivers and historical growth of properties within the area.

They should also work out the tax deductible costs and other deductions involved in owning the property such as property management fees, rates, interest, repairs, maintenance and

property depreciation.

These deductions add to the investor's net cash return and every deductible dollar comes back to the owner at their marginal tax rate.

More often than not, investors fail to consider the financial benefit of claiming depreciation prior to making their purchase. The following example shows how one property investor identified an additional yearly cash flow of \$4,992 from property depreciation.

The property investor was considering purchasing a ten year old house priced at \$560,000. They did some preliminary research and asked their Property Manager for a rental

appraisal of the property, which resulted in an expected rental income of \$530 per week, or \$27,560 per year.

The investor was also able to work out an estimate of the costs involved in owning the property. Expenses including interest rates, property management fees, rates, repairs and maintenance costs came to a total of \$36,060 per annum.

They contacted BMT Tax Depreciation for a free assessment of the likely depreciation deductions they could expect from the property and found that they would be able to claim approximately \$13,500 in depreciation in the first full year.

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Consider the depreciable value of items in your potential investment property



Depreciable items:

Asset	Value
Rangehood	\$650
Stove	\$1,250
Light shades	\$750
Blinds	\$2,100
Smoke alarms	\$250
Exhaust fans	\$190
Floating timber floors	\$4,800

The following table provides a summary of these costs and the investor's annual position, depending on whether or not depreciation is claimed.

Ten year old house priced at \$560,000			
Scenario without depreciation claim		Scenario with depreciation claim of \$13,500	
Annual expenses	\$36,060	Annual expenses	\$36,060
Annual income (\$530 x 52 weeks)	\$27,560	Annual income (\$530 x 52 weeks)	\$27,560
Pre-tax cash flow (expenses less income)	-\$8,500	Pre-tax cash flow (expenses less income)	-\$8,500
Total taxation loss	-\$8,500	Total taxation loss (pre-tax cash flow & depreciation)	-\$22,000
Tax refund (total tax loss x tax rate of 37%)	-\$3,145	Tax refund (total tax loss x tax rate of 37%)	-\$8,140
Annual costs of the investment property (pre-tax cash flow + tax refund)	-\$5,355	Annual costs of the investment property (pre-tax cash flow + tax refund)	-\$360
Weekly cost of the investment property	-\$103	Weekly cost of the investment property	-\$7
Depreciation difference = \$96 per week			

The depreciation estimates in this case study have been calculated using the diminishing value method of depreciation.

Without claiming depreciation, the property investor would experience a loss of \$103 per week during the first year of owning the property. By claiming depreciation, the weekly cost is reduced to \$7, saving them \$96 per week or \$4,992 in the first year of ownership.

An investor who crunches their numbers prior to making a purchase will gain a better perspective on the affordability of the property and their future cash flow position. Once they purchase the property, a specialist Quantity Surveyor

can be engaged to prepare a property depreciation schedule to ensure depreciation deductions are accurate and maximised.

BMT Tax Depreciation offer a number of ways for investors to obtain an estimate of the depreciation deductions that will be available for any investment property they are considering purchasing.

The BMT Tax Depreciation Calculator is available online or as a mobile app

for iPhone or Android. Investors need to know only a few details about a prospective property in order to calculate a quick estimate. To use the calculator online, investors can scan the following QR code.

Alternatively, investors can call BMT Tax Depreciation for a free over the phone estimate of potential deductions.



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Accountants' Depreciation News

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Write-off up to \$6,500 instantly

Simpler depreciation laws to assist small business

Changes to the way small businesses are able to claim depreciation have been made from the 2012-2013 financial year.

The small business instant asset write-off threshold has increased from \$1,000 to \$6,500. This new rule allows businesses to write-off any depreciating asset with a total cost less than \$6,500. Previously, the cost threshold was \$1,000; anything over this cost could not be claimed as an instant deduction.

Changes have also been made to the way businesses apply pooling to their assets for depreciation purposes. Previously, two pools were available

for small businesses to use when depreciating assets; the general small business pool for assets with an effective life of less than twenty-five years, and the long-life small business pool for assets with an effective life of twenty-five years or more. From the 2012-2013 financial year, these pools will be consolidated and items which apply to these pools will now be written off at one rate.

To calculate the deductions for these pooled assets, the closing balance of the long life pool and the general small business pool for the 2011-2012 income year will be added together in order to calculate the opening balance of the consolidated general

small business pool for the 2012-2013 income year.

The remaining value of depreciable assets plus the value of any additional assets purchased within the last financial year can be allocated to the general small business pool and written off at a rate of 15% in the year of purchase, and at 30% for subsequent years.

Small businesses are now able to claim an initial deduction of up to \$5,000 for motor vehicles acquired in the 2012-2013 financial year and for subsequent years after. This new ruling changes the way depreciation

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of a motor vehicle is calculated. Deductions are brought forward, reducing the cost of owning a motor vehicle in the first year.

Where a vehicle is used exclusively for business and has not been written off immediately under the instant asset write-off, the cost of the motor

vehicle is added to the small business pool and the deduction is made up of \$5,000 plus 15% of the vehicle's remaining value.

In order to qualify for these concessions, businesses must fall under the Australian Taxation Office (ATO) definition of a small business.

The ATO consider a small business to be an individual, partnership, trust or company with an aggregated turnover of less than two million dollars. An aggregated turnover is the annual turnover of any business with which an individual is connected or associated.



New effective lives of depreciable assets

Taxation Ruling 2013/4

The Australian Taxation Office (ATO) has released a new tax ruling effective from the 1st of July 2013.

Replacing Tax Ruling 2012/2, Tax Ruling 2013/4 explains the methods to be used when determining the effective lives of depreciating assets. Table B of Tax Ruling 2013/4 also lists the effective lives of depreciable assets currently recognised by the ATO.

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 2013/4 will only affect assets purchased and installed for use after the 1st of July 2013.

If a depreciating asset has been purchased for use within a five year period, the effective life that will apply is the one in force from the date the depreciating asset is first used or installed ready to use.

While many assets have not been affected, the adjacent table outlines the industries which have assets with new effective lives determined in the new ATO ruling.

BMT Tax Depreciation prepares depreciation schedules for a vast range of commercial sectors. For any queries regarding claiming depreciation in your industry, contact BMT Tax Depreciation.

Industries and industry activities affected

Ammonia and ammonium nitrate manufacturing
Meat processing
Non-ferrous metal casting
Paint and coatings manufacturing
Pet food manufacturing
Prefabricated concrete manufacturing
Sanitary paper product manufacturing

If you would like a full copy of the new ruling and the assets with new effective lives for any of the above mentioned industries, please email newruling@bmtqs.com.au.

Asbestos register now required by law

Reduce the risks and costs of removal

Any Australian property built prior to 1980 has an increased chance that some form of asbestos material has been used in its construction. This can be a major concern for any investment property owner, particularly when faced with the potential health risks, and if necessary, the cost of asbestos removal.

If left undamaged asbestos does not usually pose a health risk; however, when asbestos has been disturbed or damaged, the fibres within it become a health concern to anyone exposed.

“A property owner is able to claim a deduction for the removal of asbestos from their income producing property”

Due to the serious health risks associated with asbestos, it is now law in most states and territories across Australia that every commercial building constructed prior to 31st of December 2003 has an asbestos register and an asbestos management plan. It is the responsibility of the

person with control or management of the property to ensure that this register and management plan is current.

An asbestos register lists all identified and assumed asbestos within a building. The asbestos management plan outlines the presence of asbestos as well as the safe work procedures, control measures and emergency procedures for a building containing any identified asbestos. This management plan must be kept up-to-date and reviewed at least once every five years.

In a situation where asbestos becomes hazardous, it may need to be removed. For a property owner, the cost of its removal can be a large burden. However, under Section 40-755 (Environmental Protection Act) of the Income Tax Assessment Act, a property owner is able to claim a deduction for the removal of asbestos from their income producing property if the asbestos poses a health risk.

The Australian Taxation Office allows the property owner to deduct the expenditure incurred for the main purpose of carrying out environmental protection activities. The removal of damaged asbestos from a residential investment property or commercial building is classified as an environmental protection activity as its sole purpose is



to prevent contamination or pollution of a property.

When completing any improvement to an income producing property, including asbestos removal, make sure you contact a specialist Quantity Surveyor so that the remaining depreciable value of items being removed is captured. A post-work depreciation schedule should also be completed as any replaced items and structural improvements are eligible to be claimed and could mean a greater cash return from your investment property.

More for you

BMT has released a handy tool to help you find out the effective life and depreciable rate of any plant and equipment asset.

‘BMT Rate Finder’ allows Accountants, Property Managers and property investors to search by industry or asset. It will show you the effective life and depreciable rate using either the prime cost or diminishing value method.

The BMT website has also recently been upgraded. New pages include BMT for property investors, Accountants, Property Professionals and Developers.



Visit www.bmtqs.com.au/depreciation-rate-finder to find the effective life of any asset or go to www.bmtqs.com.au to view the new pages.



Join the conversation

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

House

	Low	Medium	High
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	\$1,110	\$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 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.

Disclaimer

The information including the Construction Costs contained in Maverick is provided for general information only and on the understanding that neither BMT & ASSOC Pty Ltd, BMT Tax Depreciation Pty Ltd nor any of its officers or employees are providing professional advice on any particular matter or are liable for any error or omission in the information or any damage or loss suffered from any reliance on that information. Professional advice should be sought for your particular circumstances.

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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