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## Property investors claim thousands back: Three real examples

BMT & ASSOC continue to meet many property investors who have never heard of claiming tax depreciation on their investment properties. This legitimate way of injecting potentially thousands of dollars into a property investors' cash flow is often under-utilised. This means that investors around the country are missing out on millions of dollars in depreciation deductions each year.

This article provides three real life examples of investors who did not realise the significant deductions available to them and the benefits of using a specialist quantity surveyor to obtain a property depreciation report.

### Example One:

Sue is a past client who had previously engaged BMT & ASSOC to prepare a property depreciation report on her brand new investment property. She recently purchased an older house for \$320,000 in Melbourne's outer suburbs. The four bedroom house was built in 1968 and previous owners had extended the rear of the property in 1989.

Sue thought that there would not be any deductions available on the property due to its age. Having used BMT & ASSOC previously for her other investment property, Sue thought it would be best to contact BMT & ASSOC to ensure she wasn't missing out on any deductions.

Based upon Sue's description BMT & ASSOC visited the site, taking photos and measurements of the property and noting the recent addition.

In the first five financial year claims, BMT & ASSOC were able to identify \$25,000 worth of tax depreciation deductions. Over the life of the property, BMT & ASSOC identified a total of **\$72,000** in depreciable and capital allowance deductions.

### Example Two:

Bob and Lucy owned 2 motels in central Australia.

They were claiming a small amount in depreciation deductions based upon information that was provided to them by the previous owners. At the time of purchase their accountant didn't think it was necessary to obtain a tax depreciation report.

A few years later Bob and Lucy changed accountants, their new accountant suggested they contact BMT & ASSOC to ensure they were maximising their depreciation deductions.

Bob and Lucy engaged BMT & ASSOC to investigate the potential for increased tax deductions. A quantity surveyor visited the site and conducted further research. We found that the motel in recent years had added a restaurant, pool and additional accommodation units. These alterations and additions were within the qualifying construction periods and an updated tax depreciation report was compiled.

Bob and Lucy were able to go back and amend their previous 4 financial years of tax returns and were extremely surprised to receive a cheque for **\$90,000** from the Australian Taxation Office. They will continue to enjoy ongoing depreciation deductions, which total \$698,000, for many years to come.

### Example Three:

After speaking to a friend about using a quantity surveyor to maximise depreciation deductions George, a commercial property investor, phoned BMT & ASSOC.

A quantity surveyor met with George at one of his buildings in Sydney, a 3 storey commercial office. George was not claiming any property depreciation or building write off even though his whole building was constructed within the qualifying periods.

George received a first year deduction of \$800,000, which equated to a cash return of **\$240,000** in the first financial year.

After realising the potential cash flow that he was missing out on, George engaged BMT & ASSOC to audit and report on his 6 other commercial buildings, resulting in over \$1.5 million worth of depreciation deductions.

### Changes in back claiming legislation – don't miss out on your entitlements!

From October 2008, individuals will no longer be able to back-claim tax depreciation deductions for 4 years. This will be reduced to 2 years. It is important to contact a specialist quantity surveyor before October 2008 if you are unsure about your back-claiming options.



## Are you maximising your common property benefits?

Common property refers to the areas within an apartment complex or development that are shared between owners. In general, common areas are designated areas of a building or land that are available for use by all occupants, tenants or owners.

More complicated common areas exist whereby access to certain common areas is restricted by the entitlement the owner is granted over these areas.

Investors don't often realise that common property areas and items can be claimed as a depreciation deduction. These are legitimate deductions and can be maximised by a specialist quantity surveyor.

### How do common property entitlements increase the depreciation benefit?

Common property entitlements can add thousands of dollars to your tax depreciation claim each year, depending on the apartment complex or development. Larger complexes generally have more common property, increasing the depreciation claim. Common property is depreciated in the same way normal plant and equipment items and buildings are depreciated. Plant and equipment items (Division 40) in common property areas are depreciated according to their effective lives and the building (Division 43) is depreciated over 25 or 40 years, depending on when it was constructed.

A taxpayer's interest in a common asset is considered an asset in its own right and is depreciated as such when considering immediate write off rulings. By claiming a percentage of the depreciation on common property, this adds to the current depreciation claim.



### Common property areas include:

- Driveways
- Carpark areas/basements
- Foyers
- Stairs
- BBQ and pool areas
- Gymnasiums

### Common plant & equipment items include:

- Lifts
- Lights
- Pool and spa pumps
- Common fire alarm systems

### What is a unit owner's entitlement to common property? How is it worked out?

A unit owner's entitlement to common property correlates directly to their liability. Common property, in regards to depreciation, is apportioned depending on a number of things like the size of the unit, its position in the development (penthouse or ground floor unit) and even its view. When a land surveyor first draws up the plan for a development, they work out each unit owner's entitlements.

### How do BMT & ASSOC maximise your common property claim?

BMT & ASSOC conduct a thorough site inspection of common property areas and items taking photos and measurements, noting all depreciable items.

Based on relevant building plans, we determine the owner's entitlements and depreciate all items according to that entitlement. BMT & ASSOC estimate all common plant and equipment items within the development and apportion them based on the owner's entitlements.

It is a complex procedure that should be handled by a specialist quantity surveyor.

***BMT & ASSOC see the value in your investment property.  
It is our aim to make the property investor wealthier.***

Brendan Farrugia, founding director of BMT & ASSOC



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## Repairs and Improvements: Recognising the difference

The Australian Taxation Office (ATO) differentiates between repairs and improvements. To ensure the best results are obtained from an investment property, it is important to understand the difference between the two claim options.

### Definitions

**Deductible Repair:** Returning items or property to their original state; an exercise in retaining the value of the item or property. Repairs attract an immediate 100% deduction in the year of expense.

**Improvement:** Improving the condition of an item or property beyond that of when it was purchased. Improvements are capital in nature and as such, must be depreciated over time.

### Three tests

When determining whether a repair or improvement has been made, often three basic tests are employed. They are:

1 **Has the condition of the property been improved beyond the original condition at the time of purchase?**

When an item was partially or fully replaced, it needs to be determined whether it was done due to the item being damaged, or done to improve what was previously there.

2 **Has the property been established as an income producing property?**

The ATO states that repairs must relate directly to the wear and tear or other damage that occurred as a result of renting out the property.

3 **Was the asset partially replaced, or replaced in its entirety?**

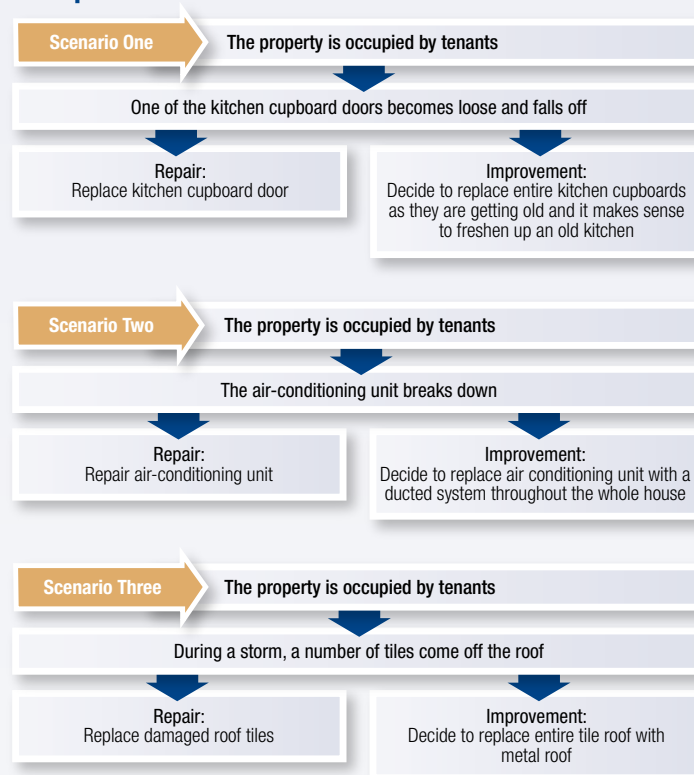
Partially replacing an item, like a fence panel, due to damage or wear and tear, often implies that a repair is being carried out. However, if a fence panel needs to be replaced, but the property owner decides to replace the entire fence (for no apparent reason except to improve the property's value), this will be classified as an improvement.

### Important Points

■ When completing repairs, they should be carried out when the property is tenanted. The ATO will allow repairs as a deduction only if the property is being used for income producing purposes at that time. However, if tenants have recently moved out and repairs need to be made due to damage caused by those tenants, the repairs will also be allowed as a deduction as the damage occurred when the property was income producing. It is also important to consult your accountant when making a repair claim, as it becomes a 100% immediate deduction.

■ It is important to note that an initial improvement at the time of purchase will not give rise to an immediate tax deduction. Property investors may be able to claim the cost of an initial improvement under the special construction write-off provision, or create a plant or article which may be depreciated over time, but it will not create an immediate deduction in its own right.

### Examples



### When to Consult a Quantity Surveyor

#### Before Making Improvements

It is important to consult a quantity surveyor before conducting any improvements as the old structure may be able to be 'scrapped'. Essentially if an item is scrapped, the written down value of the item can be written off as a 100% tax deduction at the time of disposal. It is a very complex procedure to prepare such reports, the process involved in determining the amount of potential deductions available from a property requires the engagement of a specialist quantity surveyor.

#### After Making Improvements

A specialist quantity surveyor is able to maximise the depreciation deductions from an investment property when works are deemed to be capital improvements. Under TR 97/25, quantity surveyors are appropriately qualified to estimate construction costs for depreciation purposes.

When the total construction cost of an improvement is known, BMT & ASSOC utilise methods that are ATO accepted to maximise depreciation deductions through the apportionment items such as preliminaries, consultant fees and other associated costs.



# Construction Costs Per Square Metre - Sydney

## Construction Type

### Residential

	Low	Medium	High
3br brick veneer project home, level block, shelf design .....	\$968	\$1,198	\$1,500
Architecturally designed executive residence .....	\$2,037	\$3,133	\$4,868
3br, 2 level brick veneer townhouse, including allowance for common property .....	\$1,210	\$1,406	\$2,017
3 level walk-up unit complex, concrete structure ground floor parking .....	\$1,366	\$1,643	\$2,133
Multi-level apartment building, including lift and basement car parking.....	\$1,556	\$1,959	\$2,940

### Commercial

1-2 level open plan offices, including A/C, excluding fitout .....	\$1,250	\$1,450	\$2,160
1-4 level open plan offices, including A/C & lifts, excluding fitout .....	\$1,247	\$1,465	\$2,224
4-8 level open plan offices, including A/C & lifts, excluding fitout .....	\$1,501	\$1,824	\$2,300
8 levels and over, including A/C & lifts, excluding fitout .....	\$1,793	\$2,064	\$2,689

### Industrial

High Bay Warehouse, standard config, concrete floor, metal clad (size to 3500sqm) .....	\$751	\$813	\$938
High Bay Warehouse, standard config, concrete floor, metal clad (size > 3500sqm) .....	\$735	\$792	\$891
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size to 3500sqm) .....	\$823	\$912	\$1,022
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size > 3500sqm) .....	\$820	\$886	\$990

### Retail

Suburban shopping mall area including A/C .....	\$1,276	\$1,567	\$1,847
Bulky goods centre, concrete tiltup construction, including A/C, excluding fitout .....	\$1,012	\$1,258	\$1,400
Supermarket, including A/C, excluding fitout .....	\$1,199	\$1,303	\$1,407
Specialty shops, including A/C, excluding fitout, services capped .....	\$985	\$1,105	\$1,350

### Hotels/Motels

Single level boutique motel, including A/C guest facilities .....	\$1,767	\$2,216	\$2,896
Single level tavern/hotel, including A/C, excluding loose item fitout .....	\$1,548	\$1,944	\$2,121
Licensed club, including A/C, bar, lounge, rec facilities.....	\$1,482	\$1,902	\$2,554
Multi-level, 3 star hotel including A/C, restaurant, bar, common facilities .....	\$2,293	\$2,966	\$3,388

## Level of Finish

## The Calculation of Construction Costs

The above costs are calculated based on a Gross Floor Area (GFA) rate. Typically GFA can be defined as the sum of the fully enclosed covered floor area and the unenclosed covered floor area of a building at all floor levels, measured in a square metre rate. GFA consists of two elements:

- Fully Enclosed Covered Area (FECA)    ■ Unenclosed Covered Area (UCA)

### FECA:

Includes items such as:

- Basements
- Attics
- Garages
- Penthouses
- Lift shafts
- Staircases
- Columns and piers.

### UCA:

Includes items such as:

- Roofed balconies
- Open verandahs
- Porches and porticos
- Attached covered walkways
- Usable space under buildings.

Costs provided are an average price for typical buildings as at the date of publication, allowing for preliminaries, builders profit and overheads. Costs can provide no more than a rough guide to the probable cost of building, as costs can vary significantly based on site conditions, level of fitout and design.

## 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%



For further construction cost details please refer to our website [www.bmtqs.com.au](http://www.bmtqs.com.au)

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