

MAVERICK

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• QUANTITY SURVEYORS

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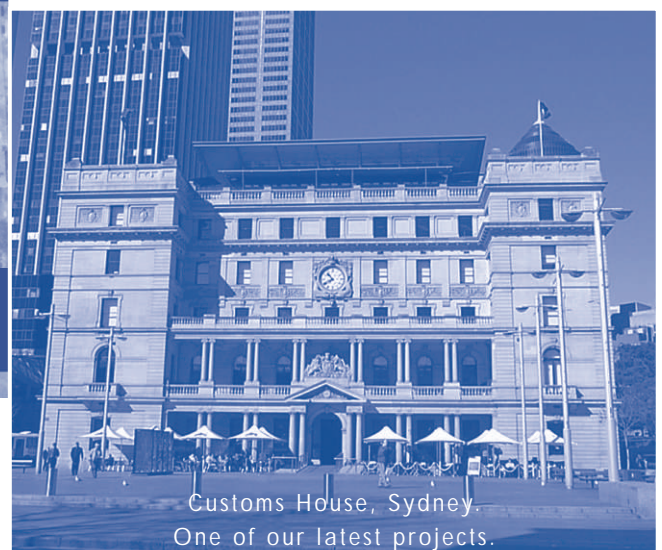
Property Transactions in Business Activity Statements

At the time you receive this edition of Maverick, your business may be preparing its first Business Activity Statement (BAS). Many businesses have found that it is not easy to determine where particular transactions must be recorded in the BAS. Property transactions can also have their own added complexities. For example, the ATO has recently determined that only part of the sale price of residential properties sold under the margin scheme will be included in the BAS. The GST inclusive value of the margin added by the developer to the land acquisition cost is included in BAS Box G1. However, the proportion of the selling price equivalent to the land acquisition value itself is not included in the BAS.

Another recent announcement by the ATO involves the treatment of outgoings under Commercial Property leases which the lessor requires the lessee to pay directly to the supplier eg council rates to the Council. The lessor will ordinarily have a GST liability on the outgoings even where paid directly by the lessee to the third party supplier. However, they must include the tax inclusive charge in BAS Box G1.

Provided below is a table listing common property related transactions showing whether GST is chargeable, the relevant BAS Boxes in the GST Calculation Sheet and where the GST inclusive amount must be included. It is not an exhaustive or definitive table of the GST treatment for all transactions.

TRANSACTION DESCRIPTION	IS GST CHARGEABLE?	BAS BOX(ES)
Supplies you make		
Sale of Commercial Property	Y	G1
Sale of Leased Commercial Property as a Going Concern	N	Both G1 & G3
Lease of Commercial Property	Y	G1
Outgoings charged under		
Commercial Property Leases paid directly to lessor or third party supplier	Y	G1
Car parking, signage and cleaning separately charged under Commercial Property Leases	Y	G1
Taxes, rates and duties oncharged under Commercial Property leases	Y	G1
Sale of new Residential Property under margin scheme - value of margin added to land acquisition value	Y	G1
Sale of new Residential Property under margin scheme - value of land acquisition itself.	N	Not in BAS
Sale of new Residential Property under full tax scheme	Y	G1
Sale of "used" Residential Property	N	Both G1 & G4
Lease (less than 50 years) of Residential Property	N	Both G1 & G4
Supplies made pre 1 July 2000	N	Not in BAS



Customs House, Sydney.
One of our latest projects.



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TRANSACTION DESCRIPTION	IS GST CHARGEABLE?	BAS BOX(ES)
Acquisitions you make		
Acquisition of Commercial Property	Y	G10
Repairs to Commercial Property	Y	G11
Acquisition of Residential Property	N	Both G10 & G13
Repairs to Residential Property	Y	Both G11 & G13
Water Rates paid to Council	N	Both G11 & G14
Stamp duty paid to OSR	N	Not in BAS or alternatively Both G11 & G14
Stamp duty on insurance premiums	N	Not in BAS
Acquisitions of pre 1 July 2000		
Supplies	N	Not in BAS
Depreciation/Amortization charges	N	Not in BAS

While it is not clear whether improvements to existing property should be included in BAS Box G10 or G11, it is recommended that they be included in G10 if they are recorded as an addition to capital in your accounts.

It should be noted that the table lists the most likely treatment for GST and the BAS Box. Each transaction may have features which result in a different treatment while the table provides a guide, each business needs to approach its own GST adviser before completing the BAS for property transactions.

This article was prepared by Stephen Baxter, Associate Director, Indirect Tax Consulting Group. It does not attempt to exhaustively cover all the GST issues relating to property industry supplies. Stephen can be contacted on (02) 9247 6464 if you wish to discuss the impact of GST on particular property related transactions which you are undertaking.



Industry Review

Scenario

Mr & Mrs Jones have owned their investment property for 4 years and have not been claiming or maximising the full depreciation and write off allowance available from their property. Can the the Jones' regain these missed depreciation benefits?

Yes. The Australian Taxation office allows a taxpayer to submit an amendment to their previous years' tax returns, and so the Jones' can regain their unclaimed depreciation benefits.

Amending previous years' tax returns to regain missed depreciation benefits

The potential to amend previous years overpaid tax can become an issue in cases where property owners who have held property assets for a number of years and have not been taking the full advantage of an individual property's tax depreciation potential.

As a general rule, a taxpayer can apply to amend their previous years' tax returns to the date it was 'due and payable'. This can be undertaken relatively easily for a period of up to four (4) tax years.

A taxpayer however, may extend the amendment beyond this 4 year period, if due cause and / or special circumstances exist - at the discretion of the commissioner of taxation. An objection to the commissioner's ruling must be submitted, and special cause must be shown.

The process of amending a previous year's tax return must be supported by appropriate evidence. In situations where property tax depreciation has been under claimed, a complete assessment and report by a recognised professional is preferred. BMT & ASSOC can provide independent construction costing and expert tax law interpretation to facilitate such an exercise.

BMT & ASSOC offer to appraise current or previous property tax depreciation claims to assess whether the maximum claim is being submitted - free of charge. An objective opinion of the feasibility of engaging our specialist services can be provided.

Should you require any further information or wish to discuss this matter in more detail do not hesitate to contact either of our offices.

How We Can Help You



Accountants

1. ATO compliant property tax depreciation schedules;
2. Support documentation to recoup missed property tax depreciation benefits;
3. Depreciation appraisals for purchasers.



Solicitors

1. Expert witness services;
2. Insurance claim reports;
3. ATO compliant property tax depreciation schedules;
4. Cost Schedules for contract of sale for a property.



Property Trusts and Syndicates

1. ATO compliant property tax depreciation schedules;
2. Asset Register preparation;
3. Feasibility Studies.



Services offered to various industry professionals by
BMT & ASSOC - Quantity Surveyors

Real Estate Agents - Sales

1. Property Tax depreciation estimates for marketing purposes;
2. ATO compliant property tax depreciation schedules;
3. Property feasibility study calculations of development costs.



Property Investors

1. ATO compliant property tax depreciation schedules;
2. Support documentation to recoup missed property tax depreciation benefits;
3. Depreciation appraisals for purchasers.



Developers & Contractors

1. Feasibility Studies;
2. Budget Estimates and Cost Planning;
3. Tender Evaluation;
4. Tax Depreciation forecasts / estimates for marketing purposes;
5. ATO compliant property tax depreciation schedules;
6. Bank representation;
7. Progress Claim preparation;
8. Bills of quantities.



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Property Tax Allowances: The Basics

The Key To Profiting From Your Property Investment

Many individuals and organisations are now preparing their returns for the 1999/00 financial year. As always a tax cheque is more welcoming than a tax bill. One particular deduction that is available to holders of any income producing property is the property depreciation and write off allowances claimable under [Division 42 and 43](#) of the Income Tax Assessment Act 1997 (ITAA97).

Many property owners are losing potential tax credits by failing to take full advantage of a property's tax depreciation potential. As an often-overlooked method of obtaining [tax credits](#), property tax depreciation is available to any property owner who obtains assessable income by way of rent or operates a business from a property.

Some examples of buildings that will attract a claim for depreciation include:

1. rented apartments and houses;
2. offices;
3. retail buildings;
4. nursing homes;
5. warehouses;
6. industrial/manufacturing facilities; and
7. hotels.

Most other types of buildings, if used for income producing purposes, will also attract a claim for depreciation.

The depreciation potential of an individual building will differ greatly depending on its age, use and original construction cost. The [maximisation of a depreciation](#) claim on any building requires a unique combination of construction costing skills and experience,

combined with an intimate knowledge of the ITAA97. The Quantity Surveyor or property depreciation and construction cost consultant can ensure the client obtains the maximum depreciation potential available from the property.

Any building irrespective of age, should attract a claim for depreciation with respect to the plant and equipment items contained within the property including air-conditioning, carpets, light fittings etc. Certain buildings will also qualify for a construction [write off allowance](#) under Division 43 of the ITAA97. The construction date of the individual property is the key to claiming this deduction. As a general rule any income producing property constructed after July 17 1985 is eligible for the construction write off allowance.

Engaging a specialist to maximise depreciation is beneficial at a number of stages in the property life cycle including;

1. the purchase of an existing building;
2. the initiation stage of a new building;
3. the completion of a new building;
4. currently held freehold and leasehold property.

The [individual property holder](#) as well as corporations with large portfolios often allow depreciation to become a low priority and hence the tax credits generated from each individual property investment is not maximised. Experience has shown clients that do engage a specialist obtain significant tax benefits of up to 50-100% over what would have previously been claimed.



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