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BMT Tax Depreciation QUANTITY SURVEYORS

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BMT & ASSOC QUANTITY SURVEYORS

Depreciation: Helping to Keep a Property Investor's Head Above Water

With interest rates at a 12 year high, depreciation can take the pressure off property investors

During the last few years many Australians have had to spread their dollar further with higher petrol prices, interest rates and the cost of living impacting their finances.

In the current economic climate, it is easy to see why investment property owners have cause for concern. Issues such as low housing affordability, increasing but still low rental yields, increased land tax and increases in mortgage repossessions can all make successful investing appear difficult.

However, as a property investor, it is possible to effectively manage your finances and be profitable.

Ride the wave of wealth

There is a mechanism available in the Australian taxation system that enables property investors to claim a deduction related to the wear and tear on the structure of an investment property and the depreciation of the plant and equipment items contained within it. Ensuring that these deductions are maximised generally results in more cash flow for the investor. By maximising tax depreciation, the investment property becomes more tax effective.

The following examples show the difference that depreciation can make to an investor's weekly cash flow.

Scenario – Residential Property:

Lisa owns a 2 bedroom unit, which was purchased for $400,000. She obtains $385 per week in rent (totalling approx $20,000 per year). Her expenses (including interest, rates, management fees) total approx $36,000 per year.

No Depreciation Claim		BMT Tax Depreciation Claim	
Pre-Tax Cash Flow		**Pre-Tax Cash Flow**	
Loss	$16,000	Loss	$16,000
		Depreciation	$12,000
TOTAL DEDUCTION	**$16,000**	**TOTAL DEDUCTION**	**$28,000**
Post-Tax Cash Flow	(tax rate 40%)	**Post-Tax Cash Flow**	(tax rate 40%)
Tax refund	$6,400	Tax refund	$11,200
Net Cash Outlay	$9,600	Net Cash Outlay	$4,800
CASH OUTLAY PER WEEK	$185	CASH OUTLAY PER WEEK	$92

Calculations based on the diminishing value method of depreciation.

By obtaining a BMT Tax Depreciation report, Lisa has improved her post-tax cash flow position by $93 per week.

Scenario – Commercial Property:

Darren owns a commercial office building, which was purchased for $1.1 million. He leases it to a tenant for $1800 per week (totalling approx $94,000). His expenses (including interest, rates, management fees) total approx $124,000 per year.

No Depreciation Claim		BMT Tax Depreciation Claim	
Pre-Tax Cash Flow		**Pre-Tax Cash Flow**	
Loss	$30,000	Loss	$30,000
		Depreciation	$40,000
TOTAL DEDUCTION	**$30,000**	**TOTAL DEDUCTION**	**$70,000**
Post-Tax Cash Flow	(tax rate 30%)	**Post-Tax Cash Flow**	(tax rate 30%)
Tax refund	$9,000	Tax refund	$21,000
Net Cash Outlay	$21,000	Net Cash Outlay	$9,000
CASH OUTLAY PER WEEK	$404	CASH OUTLAY PER WEEK	$173

Calculations based on the diminishing value method of depreciation.

By obtaining a BMT Tax Depreciation report, Darren has improved his post-tax cash flow position by $231 per week.

Note: Pre-tax cash flow = income - expenses

While interest rates remain high, it is important for investors to make their property work for them as effectively as possible. In some cases, even obtaining between $50 and $100 extra a week through depreciation deductions can take the pressure off many investors.

The above examples highlight the importance of engaging the services of a qualified and reputable Quantity Surveyor to assess a depreciation claim and obtain the maximum depreciation deductions available from the investor's property. In today's economic climate, depreciation could mean the difference between sink or swim.

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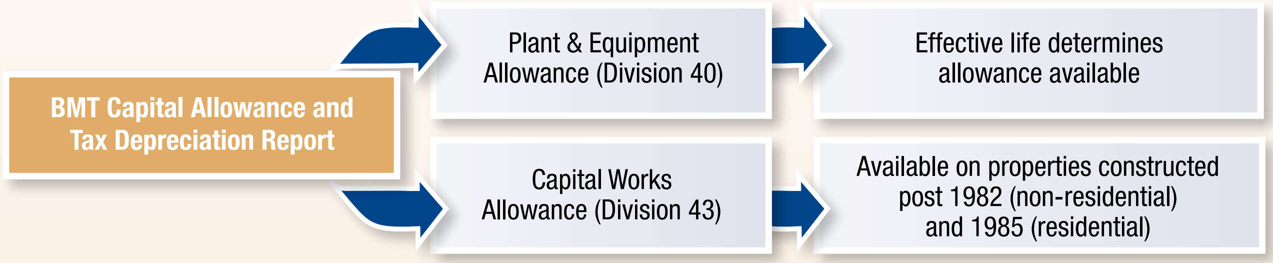
Sydney:
Level 20, Tower 2, Darling Park
201 Sussex Street Sydney NSW 2000
PO Box N314 Grosvenor Place 1220
Ph: 02 9241 6477

Older Properties and Depreciation

Many investors remain unsure about whether it is worthwhile obtaining a depreciation report for a residential property that was built before 1985.

Current tax legislation states that any property built before 17 July 1985 (residential) and 20 July 1982 (non-residential) can not claim the capital works allowance as a deduction. This often results in the investor not thinking to obtain a depreciation report as they believe that their property is too old. However it is worth enquiring about **any** property - even one that is 100 years old!

In the case of older properties, it is worth noting that a capital allowance and tax depreciation report covers not only the capital works allowance but depreciation of plant and equipment as well. This means that all properties that obtain an income by the way of rent should be eligible to claim a deduction for the plant and equipment items contained within the property.



Even if a property is too old to claim the capital works allowance for the building structure, the investor will still be eligible to claim the plant and equipment allowance.

Additionally, if extensions or renovations were completed after 1982 (non-residential) or 1985 (residential), they will attract the capital works allowance.

What types of plant and equipment items can be claimed?

Many plant and equipment items contained within a property are able to be depreciated over their effective lives. Some of these items include:

- hot water service
- cooktops
- microwaves
- ceiling fans
- ovens
- vinyl
- dishwasher
- floating timber floors
- furniture package
- carpet
- rangehood
- clothes dryer
- blinds
- smoke alarms
- freestanding spa
- exhaust fans
- air conditioner
- curtains
- washing machines
- light shades
- security systems

What if you are still unsure about your property's depreciation potential?

BMT Tax Depreciation will discuss any property scenario free of charge and obligation free.

If we inspect the property and believe that it is not worth completing a depreciation report, we will not charge you for our services to that point.

If we can't obtain double our fee worth of deductions in the first full financial year claim, there will be no charge for our services.

{INDUSTRY UPDATE}

National Rental Affordability Scheme (NRAS)

In response to the much talked about housing affordability crisis in Australia, 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. While there is only draft legislation in place at the moment, the government is seeking applications from developers and investment consortiums before the bill is put in place. The scheme is targeted at residential developers and investment consortiums who intend to retain their stock (ideally 100 or more dwellings).

BMT understand the application process and can assist developers with construction cost estimates which are required as part of the submission. BMT can also assist in identifying the potential deductions through depreciation estimates which will significantly aid in unlocking the cash flow needed to retain the stock. Should you require any further information, please contact your nearest BMT office.

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

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

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

Brisbane:
Level 7, 320 Adelaide Street
GPO Box 3229 Brisbane QLD 4001
Ph: 07 3221 9922

Melbourne:
Level 50, 120 Collins Street
GPO Box 4260 Melbourne VIC 3001
Ph: 03 9654 2233

Adelaide:
Level 10, 60 Waymouth Street
GPO Box 1588 Adelaide SA 5001
Ph: 08 8231 1133

www.bmtqs.com.au

Investing: Units vs Houses – Depreciation Differences

BMT Tax Depreciation are often asked by investors why a unit obtains more depreciation deductions than a house. Whilst the depreciation difference is not always obvious between the two property types, it is worth investigating the reasons this may occur.

When calculating the depreciation deductions available in a property, items that are taken into consideration include property purchase price, settlement date, construction commencement and completion dates, land value (where relevant) and the plant and equipment items within the property.

Why does a unit usually attract higher depreciation deductions?

Units generally contain more plant and equipment items than a house. Not only can unit owners claim the items within their strata unit, like dishwashers, hot water systems and carpets, but they are also entitled to claim part of the common property. This includes items like driveways, pool pumps, outdoor furniture, lifts and common fire alarm systems.

The following example shows that when a house and unit are compared (with the same purchase price, construction completion date and settlement date), there is a difference of $15,000 in depreciation deductions over the first 5 years of ownership.

Location: Wollongong, NSW			
Purchase Price: $365,000 Construction Date: March 2008			
House		Unit	
Year 1 Depreciation:	$10,000	Year 1 Depreciation:	$14,000
Year 1-5 Cumulative Depreciation:	$40,000	Year 1-5 Cumulative Depreciation:	$55,000
Total Depreciation over 40 years:	$245,000	Total Depreciation over 40 years:	$266,500

Note: When purchasing a strata unit there are other costs, such as strata fees, to consider as an ongoing cost of ownership.

Why engage a Quantity Surveyor to complete a tax depreciation report?

Specialised Knowledge and Expertise:

Quantity Surveyors are recognised under Australian Taxation Office (ATO) legislation as qualified to estimate construction costs for depreciation purposes. Accountants and real estate agents may sometimes estimate depreciation figures, but they do not have the construction cost knowledge or expertise to accurately determine the depreciation deductions available in an investment property. Most importantly, the ATO does not recognise their figures for inclusion in a tax return. Using the services of a quantity surveyor who specialises in depreciation, like BMT Tax Depreciation, will ensure the investor gets the maximum deductions available.

Accurate Record Keeping:

In the majority of cases, a site inspection will be undertaken in order to determine the maximum number of plant and equipment items within a property. Measurements, photos and notes are taken to supplement the depreciation report. If an investor is ever audited by the ATO, their depreciation claim will be supported by documented evidence as recorded at the time of inspection.

Fee is Tax Deductible:

Once you have engaged a Quantity Surveyor to complete a tax depreciation report on an investment property, any fee associated with the production of that report is 100% tax deductible.

Visit www.bmtqs.com.au for access to our tax depreciation calculator. It will provide an estimate on the depreciation potential for various investment property types. It is provided free of charge and can be used at any time.

Canberra:
Level 6, 39 London Circuit
GPO Box 2526 Canberra ACT 2601
Ph: 02 6257 4800

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

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Construction Costs Per Square Metre - Sydney

Construction Type / Level of Finish

Construction Type	Low	Medium	High
Residential			
3br brick veneer project home, level block, shelf design	$980	$1,250	$1,580
Architecturally designed executive residence	$2,100	$3,250	$4,900
3br, 2 level brick veneer townhouse, including allowance for common property	$1,260	$1,480	$2,200
3 level walk-up unit complex, concrete structure ground floor parking	$1,420	$1,700	$2,200
Multi-level apartment building, including lift and basement car parking	$1,600	$1,970	$2,940
Commercial			
1-2 level open plan offices, including A/C, excluding fitout	$1,260	$1,490	$2,160
1-4 level open plan offices, including A/C & lifts, excluding fitout	$1,280	$1,510	$2,224
4-8 level open plan offices, including A/C & lifts, excluding fitout	$1,520	$1,850	$2,325
8 levels and over, including A/C & lifts, excluding fitout	$1,820	$2,064	$2,689
Industrial			
High Bay Warehouse, standard config, concrete floor, metal clad (size to 3500sqm)	$800	$900	$980
High Bay Warehouse, standard config, concrete floor, metal clad (size > 3500sqm)	$790	$885	$950
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size to 3500sqm)	$850	$950	$1,100
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size > 3500sqm)	$840	$930	$1,050
Retail			
Suburban shopping mall area including A/C	$1,295	$1,620	$1,950
Bulky goods centre, concrete tiltup construction, including A/C, excluding fitout	$1,100	$1,325	$1,490
Supermarket, including A/C, excluding fitout	$1,280	$1,400	$1,530
Specialty shops, including A/C, excluding fitout, services capped	$1,080	$1,250	$1,500
Hotels/Motels			
Single level boutique motel, including A/C guest facilities	$1,860	$2,390	$3,000
Single level tavern/hotel, including A/C, excluding loose item fitout	$1,650	$2,050	$2,200
Licensed club, including A/C, bar, lounge, rec facilities	$1,600	$2,100	$2,800
Multi-level, 3 star hotel including A/C, restaurant, bar, common facilities	$2,380	$3,100	$3,500

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)

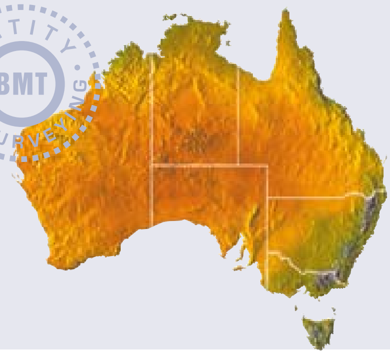
FECA:
Includes items such as:
- Basements
- Attics
- Garages
- Penthouses
- Lift shafts
- Staircases
- Columns and piers.

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**

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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

Melbourne:
Level 50, 120 Collins Street
GPO Box 4260 Melbourne VIC 3001
Ph: 03 9654 2233 Fax: 03 9654 2244

Brisbane:
Level 7, 320 Adelaide Street
GPO Box 3229 Brisbane QLD 4001
Ph: 07 3221 9922 Fax: 07 3221 9933

Adelaide:
Level 10, 60 Waymouth Street
GPO Box 1588 Adelaide SA 5001
Ph: 08 8231 1133 Fax: 08 8231 6600

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

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

Canberra:
Level 6, 39 London Circuit
GPO Box 2526 Canberra ACT 2601
Ph: 02 6257 4800 Fax: 02 6257 4811

Local Call: 1300 728 726 Local Fax: 1300 728 721 Email: info@bmtqs.com.au Website: www.bmtqs.com.au