

MAVERICK™

BMT Tax Depreciation
QUANTITY SURVEYORS

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IMPORTANT

Long or short term investment - how does property depreciation change things?

When investing in property for a short or long term it is important to understand the effects of property depreciation and how it can change an investment.

The Australian Taxation Office (ATO) allows investors to use two alternative methods of depreciation.

1. Diminishing Value Method - accelerates depreciation deductions quickly
2. Prime Cost Method - spreads the deductions out over time.

The long term intentions of the property investor will determine which depreciation method will be most suitable for them. An investor must decide to use only one method; each method effects the long term cash flow position in a different way.

Under the Diminishing Value method the deduction is calculated as a percentage of the balance you have left to deduct. The deductions will be higher in the first five years and diminish over time. This is because you are claiming a greater proportion of the assets cost in the earlier years of the effective life.

Under the Prime Cost method the deduction for each year is calculated as a percentage of the cost per year. This results in a more even spread of deductions over a longer time.

It depends on your investment strategy as to which method is best for you, you will need to consider how long you intend to hold the property and if you are going to need higher deductions now or in ten years time. Your accountant is the best person to discuss this with.

If an investor purchases a property for the purposes of a short term investment and planned to sell it in approximately five years time, the Diminishing Value method would be a more attractive option to take, as it provides higher returns over the earlier years. If the owner was intending to retain ownership for a longer

period of time then the Prime Cost option may be more suitable, as it provides a constant long term projection of what the investor's tax deductions will be.

Our experience shows that most investors employ the Diminishing Value method on both long and short term investments as depreciation deductions under this method are cumulatively higher over the first five of ownership, when they need the deductions most.

Below is an example of how the Diminishing Value method compares to the Prime Cost method in deductions obtained per year for ten years.

	Diminishing Value Method	Prime Cost Method
Year One	\$8,658	\$6,606
Year Two	\$8,930	\$6,126
Year Three	\$6,948	\$6,126
Year Four	\$6,197	\$6,126
Year Five	\$5,103	\$6,124
Year Six	\$4,408	\$4,813
Year Seven	\$4,118	\$4,720
Year Eight	\$3,744	\$4,718
Year Nine	\$3,513	\$4,718
Year Ten	\$3,368	\$4,708

Figures based on a purchase price of \$400,000; older property

Remember to discuss these options with your accountant, every property investors situation is different, your accountant will know which method is best for you.



Pay As You Go Variations – Put Extra Money in Your Pocket Weekly!

An often overlooked way in which Investors can improve their weekly cash flow is through a pay as you go (PAYG) variation. The PAYG system is a method of tax collection that was introduced in July 2000 to replace previous versions of the same system, such as pay as you earn (PAYE).

PAYG instalments are a system for paying instalments towards your expected tax liability on your business and investment income for the current income year. A PAYG variation is an application to the ATO requesting that your employer reduce your weekly/fortnightly tax payments to reflect set deductions like depreciation on a rental property. In essence it is a way of decreasing the amount of tax you pay each fortnight to help with your week to week cash flow. Rather than a tax return at the end of the financial year, it is equivalent to receiving small portions of your return each week.

The flexibility this gives the Investor, combined with depreciation deductions identified by your Quantity Surveyor, can be of **great help in managing investments and mortgage repayments.**

Let's consider a hypothetical situation;

You have just purchased an investment property. If you were to take your potential tax return, including the extra deductions gained from your investment property, and divide it by 52 weeks, this would give you the approximate amount your tax is reduced by per week - creating the extra cash flow.

BMT Tax Depreciation makes it even easier for you when you consider the extra tax deductions we are able to identify for an investment property.

Talk to your accountant about PAYG variations and increase your weekly cash flow!

Because there aren't enough hours in the day... We're making the days longer!

For your convenience BMT are now open until 7pm AEDST weekdays and 9am - 4pm AEDST on Saturday.



Got any questions about depreciation? Call BMT, we have the answers.



Maximising Depreciation Deductions for Australian Property Investors



Improve Your Financial Position – Not the ATO's!

Investors are often surprised by the amount of items they are able to claim depreciation on inside and outside of their investment property. The following outlines the plant and equipment deductions available room by room in a residential property and a single level office. It also provides examples of the assets that can be claimed. Each scenario provides an average of the total depreciation claim per room.

Depreciation: Room by Room

Bedroom

- Carpet • Blinds
- Air conditioning • Ceiling fan
- Gas heating systems
- Smoke alarm



Depreciation claim for bedroom
\$6,000

Bathroom

- Floor coverings
- Blinds
- Heat, light and exhaust units
- Bathroom accessories - freestanding



Depreciation claim for bathroom
\$4,000

Family Room

- Floating timber floor • Blinds
- Lighting • Air conditioning • Ceiling fan
- Gas heating systems
- Smoke alarms



Depreciation claim for family room
\$10,500

Kitchen

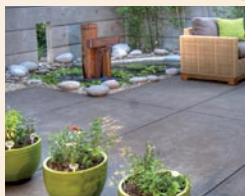
- Floor coverings • Blinds
- Cook top • Oven • Rangehood
- Microwave • Dishwasher
- Lighting • Exhaust fans • Air conditioning • Ceiling fan



Depreciation claim for kitchen
\$7,500

Outdoor areas

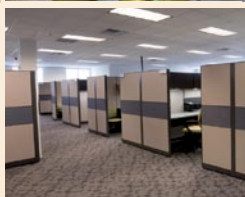
- Automatic garage door – motors/controls
- Garbage bins • Hot water systems • Pool/spa pumps
- Pool cleaner • Garden watering installations
- Outdoor furniture (including table and chairs) • Outdoor gas heaters • BBQ



Depreciation claim for outdoor area
\$13,000

Single Level Office

- Carpet • Lift • Fluorescent lighting • Fire alarms • Air conditioning
- Door Closers • Fire exit sign • Fire hose reel • Instant hot water unit
- Bathroom accessories • Blinds • Hand dryers • Partitioning
- Security system • Signage



Depreciation claim for office
\$32,000

BMT figures based on the diminishing value method of depreciation.

It is vital to get a depreciation specialist, like BMT Tax Depreciation, to prepare a tax depreciation report. Maximising the plant and equipment items within an investment property can generate thousands of dollars at tax time.

A BMT Tax Depreciation specialist will visit the investment property to identify and photograph all plant and equipment assets (Division 40) ensuring that the deductions are accurate and every asset is included. They will take detailed measurements, noting the construction method used, to accurately determine the historical construction cost of the property. BMT only use our own fully trained staff for site inspections, ensuring that if you are audited by the ATO, we will stand by our report and answer any questions they may have.

While the above examples have only considered the Division 40 deductions available, it is important to remember that the building may also qualify for capital allowance deductions; depending on the year construction was completed. Consult a BMT Tax Depreciation specialist for an obligation free assessment of your investment property if you are unsure about your entitlements.

Construction Costs Per Square Metre - Sydney

Construction Type

Level of Finish

Residential

	Low	Medium	High
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 < 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 < 3500sqm)	\$900	\$990	\$1,100
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size > 3500sqm)	\$890	\$970	\$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 above rates are exclusive of GST. Please visit www.bmtqs.com.au for more information.

Please visit www.bmtqs.com.au
for more information on tax
depreciation and construction
costs, including our previous
publications and calculators!

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%

BMT Tax Depreciation

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Disclaimer

The Construction Costs herein are published on and should be read subject to the following conditions:

- Construction costs are published as a matter of interest only and are not intended to be relied upon by readers. In any situations which may be similar to matters herein readers should exercise and rely upon their own judgement.
- Neither BMT & ASSOC, BMT Tax Depreciation nor any of its officers or employees bear any responsibility for any error in the material published in this publication or in any previous publication, or for any damage or loss resulting from any reliance on any material published in this publication or in any previous publication.
- Construction costs are not intended for tendering or pricing variations. They are average prices in the Metropolitan Area and should be adjusted with reference to specific conditions. The rates include the cost of labour and material, waste, hoisting, fixing in position and for profit. The profit allowance is based on the prevailing market conditions in each capital city.
- These Construction Costs were produced prior to publication and due allowance should be made in this regard to the rates shown.
- The rates exclude any allowance for Goods and Services Tax including compliance cost. Costs exclude land, demolition and any work outside the footprint of the building.
- The BMT & ASSOC and BMT Tax Depreciation privacy policy has been amended. Please refer to our website for a copy of the updated policy.

This newsletter is issued as a helpful guide and is not intended to, and does not cover all aspects of the topics discussed. Professional advice should be sought before any action upon these topics is undertaken.