

# MAVERICK™

BMT Tax Depreciation  
QUANTITY SURVEYORS

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## Get more when you renovate with a BMT Report

Has the time come to renovate an investment property?

Thinking about the types of new fittings and fixtures before installing them may generate you thousands of dollars in depreciation deductions. Make sure you do everything to maximise the cash flow potential of your next renovation project.

Many investors purchase properties that require improvement. They usually do this with the sole purpose of renovating to create equity and generate extra rent.

Once you have decided to renovate your investment property, it is important to ensure you obtain the best long term value from the money you are outlaying. Renovations can be expensive, so it makes financial sense to obtain the maximum depreciation benefit where possible.

When it comes to deciding which new item to install in a property, some consideration should be applied to the depreciation potential of the new item.

***In many cases, renovations can be funded by the immediate 'write off' of old items and the depreciation deductions from the new items.***

### Maximising depreciation on new items

Which new floor covering should you install to increase your depreciation potential - **carpet, floating timber floorboards or tiles**? The depreciation available on these items differs due to their varying effective lives.

If you spend \$2000 on floor coverings, for example:

| Item                        | Effective Life | Depreciation 1st Year |
|-----------------------------|----------------|-----------------------|
| Carpet                      | 10 years       | <b>\$400</b> Maximum  |
| Floating Timber Floorboards | 15 years       | \$267                 |
| Tiles                       | 40 years       | \$50                  |

### Considering ornamental light fittings or down lights?

If you spend \$2000 on lighting, for example:

| Item                      | Effective Life | Depreciation 1st Year |
|---------------------------|----------------|-----------------------|
| Ornamental Light Fittings | 5 years        | <b>\$800</b> Maximum  |
| Down Lights               | 40 years       | \$50                  |

### Deciding between an air conditioning unit and ducted air conditioning?

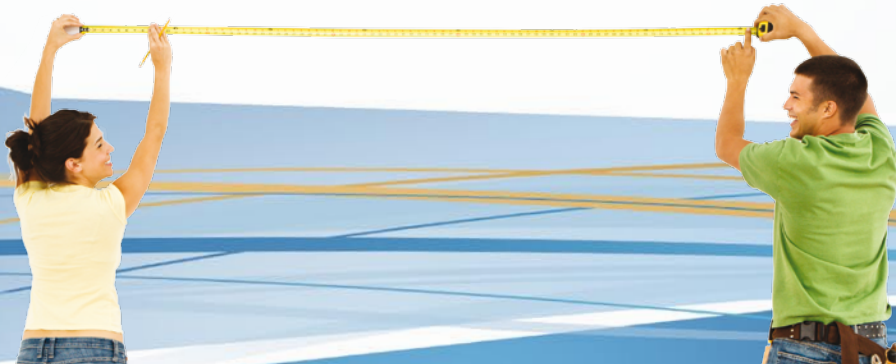
If you spend \$5000 on cooling, for example:

| Item                           | Effective Life | Depreciation 1st Year |
|--------------------------------|----------------|-----------------------|
| Air Conditioner – Split System | 10 years       | <b>\$1000</b> Maximum |
| Ducted Air Conditioning Unit   | 15 years       | \$667                 |

(Figures based on Diminishing Value method using current legislation)

As shown in the above examples, installing assets for their depreciation potential is certainly worthwhile. Depending on the size of the property and the extent of the renovations, the deductions obtained from the new items may improve your cash flow each financial year by thousands of dollars. In many cases, renovations can be funded by the immediate 'write off' of old items and the depreciation deductions from the new items.

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Continued from page 1.



## STOP: Before you renovate....

Have you considered the concept of scrapping? Many investors can claim depreciation deductions on the items that they remove from the property before they renovate – this removal of items is often referred to as 'scrapping'. This means that if you remove items such as old carpet, stoves, hot water services or air conditioning units from your property, you may be able to write them off as a 100% tax deduction in the year of removal. Obtaining a tax depreciation report pre-renovation can save you thousands at tax time. A specialist Quantity Surveying firm like BMT Tax Depreciation can maximise the deductions available to you.

## Effective lives – Explained

The 'effective life' of an asset is used by a Quantity Surveyor to work out an asset's decline in value.

The Australian Taxation Office (ATO) describes an effective life as 'the period of time that a depreciating asset can be used by any entity to produce assessable income:

- assuming it will be subject to wear and tear at a reasonable rate,
- assuming it will be maintained in reasonably good order and condition, and
- having regard to the period within which it is likely to be scrapped, sold for no more than scrap value or abandoned.' Source: [www.ato.gov.au](http://www.ato.gov.au)

## Depreciation deductions on structural renovations

If structural construction work is completed as part of the renovations (such as a new roof, walls or ceiling), this can also be depreciated. Any work carried out after 18 July 1985 (residential property) and 20 July 1982 (non-residential property) will be eligible to claim the capital works allowance (Division 43) as well as any plant and equipment deductions.

## Renovations carried out by previous owners: Can depreciation be claimed?

When BMT Tax Depreciation completes your tax depreciation report, we always take into consideration the renovations carried out by previous owners. Even though you may not have carried out the work yourself, there may be depreciation deductions for you to claim. A thorough site inspection is undertaken on your property by a BMT Tax Depreciation staff member identifying previous renovation works. Further council searches can also expose previous renovations carried out on the property.

Always consult a depreciation expert about your entitlements. Maximising the depreciation available in your investment property may improve your cash flow position each financial year – you'll pay less tax!

BMT Tax Depreciation can offer obligation free advice about your property's depreciation potential pre and post renovation – simply call the office and speak to us about your property scenario.

## Free check up for your current depreciation claim

If you or your clients already have a tax depreciation report, BMT Tax Depreciation can review your claim/report free of charge and make sure you are maximising your entitlements.

We will identify any discrepancies, make sure deductions have been maximised and determine if the correct methodology has been used. Simply call your local office for more information, or email your current report to [review@bmtqs.com.au](mailto:review@bmtqs.com.au) - we'll only need to ask a few questions about the property and we can identify any deductions you may have been missing out on.

BMT Tax Depreciation specialise in maximising depreciation deductions for investment property owners Australia wide. We look forward to helping you put more money back into your pocket!



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## Q & A: Using low-value pooling to maximise depreciation deductions

BMT Tax Depreciation is often asked about low-value pooling by investors.

The following questions and answers demonstrate some of the more common queries we receive.

### Q: What is low-value pooling?

**A:** Low-value pooling is a way of depreciating plant items which cost less than \$1000 or have an un-deducted cost of less than \$1000.

The following types of depreciable assets can be allocated to a low-value pool:

- ✓ **Low-cost assets** – A low-cost asset is a depreciable asset that has an opening value of less than \$1000 in the year of acquisition.
- ✓ **Low-value assets** – A low-value asset is a depreciable asset that has a written down value of less than \$1000. That is, if the opening value of an asset is greater than \$1000 in the year of acquisition but the value remaining after depreciating over time is now less than \$1000. Assets meeting this classification are placed in an itemised pool.

You cannot allocate the following depreciating assets to a low-value pool:

- ✗ Assets for which you have previously claimed deductions calculated using the prime cost method.
- ✗ Assets that cost \$300 or less (you can claim assets under \$300 as an immediate deduction).

Pooling is used in conjunction with the diminishing value method to maximise deductions in the early years of ownership.

### Q: How does the low-value pool affect items that are part of a set?

**A:** The low-value pool is an effective rule allowing an increased depreciation deduction available to most investment property owners. Any asset in a rental property which costs less than \$1000 can be included in the low-value pool and written off at an accelerated rate of 18.75% in the first year of ownership and 37.5% each year thereafter.

There is often confusion concerning assets which form part of a set when their total cost exceeds \$1000. For example, if a house has six sets of blinds, the cost will be around \$3000. The total cost does not appear to qualify for the extra depreciation available in the low-value pool, however BMT Tax Depreciation will still depreciate these blinds at the higher rate as they qualify as individual assets. Dividing \$3000 into six makes each blind worth around \$500. Therefore the blinds can be included in the low-value pool.

It is important to use a Quantity Surveyor who specialises in tax depreciation to ensure that your depreciation entitlements are maximised. It could mean the difference between thousands of dollars at tax time. Contact a BMT Tax Depreciation specialist if you have any queries about pooling or the depreciation process.



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## New legislation change TR 2009/4

The final Taxation Ruling issued on 24 June 2009 concerns the effective life of depreciating assets. This ruling replaced Taxation Ruling TR 2008/4 from July 1, 2009. Determinations of the effective life of certain depreciating assets made by the Commissioner are contained in two tables in the ruling which can be found on the ATO website.

The changes include determinations of effective lives for:

- ➔ Automotive car washing assets
- ➔ Soft drink manufacturing assets
- ➔ Scenic and sightseeing transport assets
- ➔ Poker machines
- ➔ Glass and glass product manufacturing
- ➔ Automotive smash repair assets
- ➔ Commercial vessels
- ➔ Peanut processing assets
- ➔ Packaging assets
- ➔ Iron smelting and steel manufacturing - Sinter and coke making assets

However, if you already have a depreciation report and it uses an effective life from the previous Taxation Ruling TR 2008/4, you should continue to use that effective life for the asset.

BMT Tax Depreciation can provide advice about your commercial property scenario, obligation free. If you are unsure about your entitlements, or whether this change in effective lives may affect you, please contact a BMT Tax Depreciation specialist today.



# 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 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) ..... | \$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](http://www.bmtqs.com.au) for more information.



Please visit  
[www.bmtqs.com.au](http://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% |

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