

An Example of the Depreciation Deductions Available

BMT & ASSOC has identified over **\$20,000 in deductions** for this investor in plant and equipment items alone.

BEDROOM

- Air conditioning \$2500
- Blinds \$300
- Carpet \$900
- Light shades \$150
- Smoke alarm \$130
- Furniture package \$3000

BATHROOM

- Light fittings \$90
- Free standing bathroom accessories \$100
- XL light/heat \$250
- Heated towel rail \$600

Lounge Room

- Light shades \$350
- Ceiling fan \$250
- Security system \$2300
- Floating timber floor boards \$1800
- Smoke Alarm \$130
- Blinds \$600

KITCHEN

- Rangehood \$1350
- Blinds \$400
- Microwave \$360
- Dishwasher \$1500
- Stove \$2500
- Floating timber floor boards \$1500

Note: The above example is provided as an approximate guide only. This example assumes the property is less than 5 years old. Approximate deductions obtainable based on a 1 bedroom unit using the diminishing value method of depreciation over the relevant period of time.

BMT & ASSOC
Quantity Surveyors

Further Examples

Building Type	2 BR Unit	Townhouse	Residential House	Commercial Building
Purchase Price	\$400,000	\$300,000	\$375,000	\$2,500,000
Year 1 Depreciation	\$10,000	\$7,000	\$8,500	\$100,000
Year 1-5 Cumulative Depreciation	\$45,000	\$30,000	\$38,000	\$450,000

Investor Profile

The following is a tale of two investors – they both have a property purchased for the same price and rent it out at \$385. Their expenses for the property are also the same. So what differentiates these two investors? One investor has obtained a BMT Tax Depreciation report, and the other investor has not obtained a report.

Property:

- A two bedroom unit purchased for \$400,000

Income:

- Rent @ \$385 per week
- Total income approximately \$20,000 per year

Expenses:

- Interest, rates and management expenses \$32,000 per year

Pre Tax Cash Flow \$20,000 (income) - \$32,000 (expenses) = -\$12,000

Investor One (no depreciation report)

Pre tax cash flow

- Tax depreciation \$0
- Taxation loss \$12,000

Post tax cash flow (top tax rate of 45%)

- Tax refund \$5,400

Net cash outlay \$6,600 = \$126 per week

Investor Two (BMT & ASSOC depreciation report)

Pre tax cash flow

- Tax depreciation \$12,000
- Taxation loss \$12,000
- Total deduction \$24,000

Post tax cash flow (top tax rate of 45%)

- Tax refund \$10,800

Net cash outlay \$1,200 = \$23 per week

Investor Two has over \$100 extra a week by obtaining a BMT Tax Depreciation report.

(Based on the diminishing value method of depreciation)

Top Ten Tax Depreciation Tips

1. If my property was built before 1985, is it too old?

No. It is worth noting that:

- Your investment property does not have to be new: Both new and old properties will attract some depreciation deductions. A common myth is that older properties will attract no claim.
- You can adjust previous year's tax returns: When a property owner has not been claiming or maximising tax depreciation deductions, the previous four financial year's tax returns can generally be adjusted and amended. Please note, the adjustment period was recently amended to become a 2 year period.
- Note: if the deductions are not high enough to make it feasible to complete a report, we will not proceed.

2. Why is plant and equipment itemised?

The ATO specifies an individual effective life for each plant and equipment item. Consequently, our reports show the estimated cost for each item and its contribution to the depreciation total per financial year. The original building structure and capital improvements, or Division 43, are all written off at the same rate (unless building works have been completed over different legislation periods). Therefore individual costs for these items aren't expressed in the report. If required by the ATO, the estimates for Division 43 can be justified.

3. Why does the depreciation and capital allowance schedule only last 40 years?

From the date of construction completion, the ATO has determined that any building eligible to claim the building write-off allowance has a maximum effective life of 40 years. Therefore, investors can generally claim up to 40 years depreciation on a brand new building, whereas the balance of the 40 year period from construction completion is claimable on an older property.

4. Can I claim renovations completed by the previous owner?

Yes. Anything in the property that is part of a previous renovation will be estimated by our quantity surveyors and deductions calculated accordingly. This includes items that are not obvious e.g. new plumbing, water proofing, electrical wiring etc. For capital improvements to qualify for the Division 43 building write-off allowance, they must have commenced construction within the appropriate Division 43 time periods.

5. What information do I need to provide?

The information BMT Tax Depreciation require to produce a report includes the following:

- Date of settlement
- Purchase price
- Access details for inspection (E.g. property manager or tenant details)
- Any information pertaining to improvements or additions made to the property including dates and actual costs (where available)
- The date the property became available for income producing purposes.

6. What is the difference between plant and equipment and the building writeoff allowance?

Plant and equipment items are items that can be 'easily' removed from the property as opposed to items that are permanently fixed to the structure of the building. Plant items also include items that are mechanically or electronically operated, even though they can be fixed to the structure of the building. Plant and equipment items include (but are not limited to):

- Hot Water Systems
- Carpets
- Blinds
- Ovens
- Cooktops
- Rangehoods
- Garage Door Motors
- Door Closers
- Freestanding Furniture
- Air Conditioning Systems

The building write-off allowance (otherwise known as Division 43) is based on historical building costs and includes things such as the bricks, mortar, walls, flooring and wiring.

7. Who is qualified to estimate construction costs for depreciation purposes?

Quantity Surveyors are one of the few professionals recognised by the ATO to have the appropriate construction costing skills to calculate the construction cost for the purposes of building depreciation. BMT also prepare cost plan estimates for all types of buildings. Construction costs are estimated in today's market and historically adjusted to the year of construction using cost indices.

8. What is pooling?

A low value pool exists providing investors the benefit of pooling items that meet either of the following classifications:

Low Cost Pool - A low cost asset is a depreciable asset that has a cost of less than \$1000 in the year of acquisition.

Low Value Pool - A low value asset is a depreciable asset that has an un-deducted value of less than \$1000. That is, the cost of an asset is greater than \$1000 in the year of acquisition but the value remaining after depreciating over time (opening value less deductions in year 1 less deductions in year 2 etc) is now less than \$1000. Assets meeting both these classifications can be placed in an itemised pool. Pooling is used in conjunction with the diminishing value method to maximise deductions in the initial years of the depreciation schedule.

9. How do you work out how old the building is?

The age of the building can be determined by obtaining council documents with dates pertaining to the original application approval date or the Occupancy Certificate date and final inspection date. Similar methods are used Australia wide, however some properties are privately certified. BMT conduct the relevant searches required to accurately determine the age of a building. These include historical council searches regarding lodged development applications, as well as Occupancy Certificates and certified final inspections.

10. What does a BMT Tax Depreciation report contain?

A detailed 22 page schedule includes the following components:

- A method statement;
- Schedule of Diminishing Value Method of Depreciation;
- Schedule of Prime Cost Method of Depreciation;
- Schedule of pooled items for the property;
- Lists all Division 43 (10C & 10D) allowances available from the property;
- Detailed 40 year forecast table illustrating all depreciable items together with building write off for both Prime Cost and Diminishing Value methods;
- Comparative table of the two methods of depreciation;
- Common property items within strata or community title complexes such as lifts and swimming pools are included in the depreciation report for a unit in a multi-unit development;
- The report is structured to facilitate the client to be able to amend previous years' returns to re-coup unclaimed depreciation benefits; and

- The report is pro-rata calculated for the first year of ownership based on the settlement date so that the accountant has the exact depreciation deductions for each year. The report will ensure maximum depreciable items are identified and will take into account the pooling of low cost and low value items. It is valid for the life of the property, until capital improvements are undertaken or ownership changes.

Features of a BMT Tax Depreciation report

Features of a BMT Tax Depreciation report include:

- Pro-rata calculated in the first year
- Easy to read and understand
- Recognised by the ATO under TR 97/25
- 40 year projection where applicable
- 7-10 day turnaround (from site inspection)
- Diminishing value and prime cost calculations
- Low cost and low value pool
- A copy of the report is emailed to you and your accountant on completion
- Remove any risk to with a 'No Charge' Guarantee
- Report prepared by an AIQS member firm and by a property depreciation specialist