MAVERICK™

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FEATURED

Depreciation data highlights investment trends

Insight into the properties Australian investors target

There is a plethora of data available to help educate property investors with their investment strategy.

Given the value that research can provide to potential investors, we thought we'd look at some of the key statistics we could gather from the hundreds of thousands of residential BMT Tax Depreciation Schedules we have completed for our clients. What we discovered as a picture of the average Australian investor was quite interesting.

The majority of investors who contacted BMT to arrange a depreciation schedule during the 2015/2016 financial year, 83.64 per cent, ordered a report for one property.

This suggests many Australians are successfully taking their first steps in entering the property market, but the vast majority are buying one property.

The data also suggests that approximately 17.2 per cent of investors are expanding their property portfolios to two or more properties.

In fact 11.35 per cent of schedule requests came from owners with two properties, 3.85 per cent of schedule requests were from owners with three or four properties and less than 2 per cent own five or more properties.

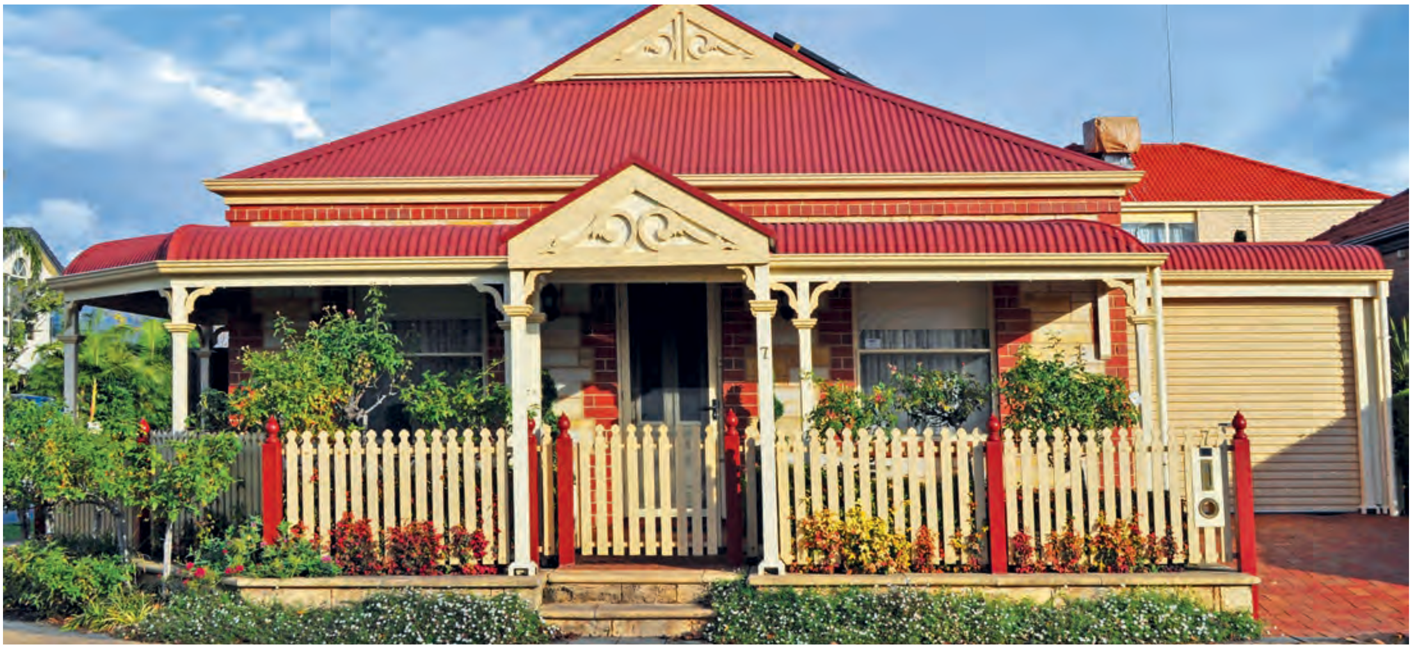
It is important to note that each time an investor calls BMT we will discuss the depreciation potential for all of the properties they own.

Data for the 2015/2016 financial year indicates that investors tend to

Continued over page >

INSIDE THIS ISSUE 41 | 2017

BMT Tax Depreciation
QUANTITY SURVEYORS



favour houses. Just over half of the schedules prepared were for houses. Units were the second most popular investment choice, at 42 per cent, while only 6.08 per cent chose townhouses and 1.75 per cent chose duplexes.

We also reviewed the age of the properties we prepared residential depreciation schedules for during the past financial year. It was interesting to note that investors were fairly evenly split between purchasing brand new, recently built (properties constructed between 2012 and 2015), properties that are around fifteen years old and those who own older properties constructed prior to 2000 and 1987.

The following table outlines the percentage of residential property investors who requested schedules based on the below construction dates.

15th of September 1987 can claim capital works deductions each year for the remaining forty years.

Although the Australian Taxation Office places restrictions on capital works deductions based on the construction commencement date of the property, there are no such restrictions for plant and equipment assets. Their value is determined by the condition, age and quality of each asset.

> “The owner of a property constructed prior to 1987 can receive an average first year deduction of $4,899.”

Age of residential properties selected – 2015/2016 financial year

Description	Construction dates	Percentage of total	Average first full year deduction
Old	Pre 1987	22.3%	$4,899
Pre 2000	1987 – 2000	16.9%	$7,543
Up to 15 years old	2000 – end 2012	26.0%	$11,303
Fairly new	2012 – 2015	13.3%	$12,316
Brand new	Built after 1/3/2015	21.5%	$12,680

The depreciation deductions in this example have been calculated using the diminishing value method.

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Our property investor clients often ask the question whether it is best to purchase an old or new property in terms of the depreciation benefits the property will provide the owner.

Even the owner of a property constructed prior to 1987 can receive an average depreciation deduction of $4,899 in the first full financial year alone.

While owners of brand new properties will receive higher depreciation deductions, as shown by the average deduction of $12,680 in the first full financial year, it is always worthwhile asking a specialist Quantity Surveyor what can be claimed no matter how old a property is.

Owners of newly constructed properties are entitled to claim capital works deductions for the full forty years, while owners of older properties where construction commenced after the

A fair value is determined for these assets and the effective life will start from the date of settlement.

In summary, the key findings from our data suggest that the majority of Australian property investors own just one property and not large portfolios. We can also see that 78.5 per cent are buying second hand properties, up from 70.4 per cent in the previous financial year.

The data also provides a reminder for investors to discuss the depreciation deductions they can claim for any property purchase. These deductions can be substantial no matter what age the building is and whether it is a house, a unit, a townhouse or a duplex.

Stay on schedule with MyBMT

New portal makes life easy for property investors and Accountants

MyBMT is a new online portal which allows users to manage the intricacies relating to tax and investment properties in one central location.

Access to MyBMT is free and registered users can:

- Calculate a depreciation estimate for any property
- Calculate after tax holding costs of existing or prospective properties
- Request a schedule for new purchases
- Update existing BMT Tax Depreciation Schedules
- Follow the progress of a schedule's completion
- View completed schedules
- Add files such as invoices, receipts, photos and documents
- Provide access to your investment team including your Accountant

Accountants and Tax Agents can access MyBMT to:

- Tailor a schedule to suit your client's needs
- View selected financial year summaries including current updates for work completed to the property
- Add or remove assets
- Check progress and keep clients' informed
- Access all clients' completed BMT schedules in CSV and Excel format for current or previous years
- Request a quote or order a new depreciation schedule

Members who sign up to MyBMT will receive access to PropCalc, an exciting new calculator which provides a comprehensive summary of the cash flow potential of any Australian residential property.

For more details about MyBMT or to register today, visit mybmt.bmtqs.com.au

Multiple owners increase depreciation claims

Split reports help accelerate deductions

An increase in BMT Tax Depreciation Schedules for more than one owner suggests co-ownership is becoming an increasingly popular trend.

Owning a property with others can provide improved purchasing power. This can be particularly useful in capital cities where it can be difficult to break into the property market.

It can also balance out the expenses of owning an investment property including ongoing repairs, maintenance and fees. Additionally, co-ownership can provide improved depreciation deductions, allowing more items to be depreciated at a higher rate. This is where a BMT Tax Depreciation split report can assist.

How does a split report work?

A split report calculates depreciation deductions based on each owner's percentage of ownership for each asset. This involves splitting the value of the assets based upon each owner's interest in the assets before applying depreciation rules.

In a scenario where there is just one owner, legislation allows property investors to claim an immediate write-off for assets with an opening value of $300 or less. However, when an investment property is co-owned by two parties with a 50:50 ownership share, a split report allows the owners to each claim an immediate write-off for items where their interest in the asset is below $300. This means the owners can claim an instant write-off for items which are less than $600 in total value.

The same method can be used when applying low-value pooling. Where an owner's interest in an asset is less than $1,000, these items will qualify to be placed in a low-value pool. This means they can be claimed at an increased rate of 18.75 per cent in the first year regardless of the number of days owned and 37.5 per cent from the second year onwards.

In a situation where ownership is split 50:50, by calculating an owner's interest in each asset first, the owners will qualify to pool assets which cost less than $2,000 in total to the low-value pool.

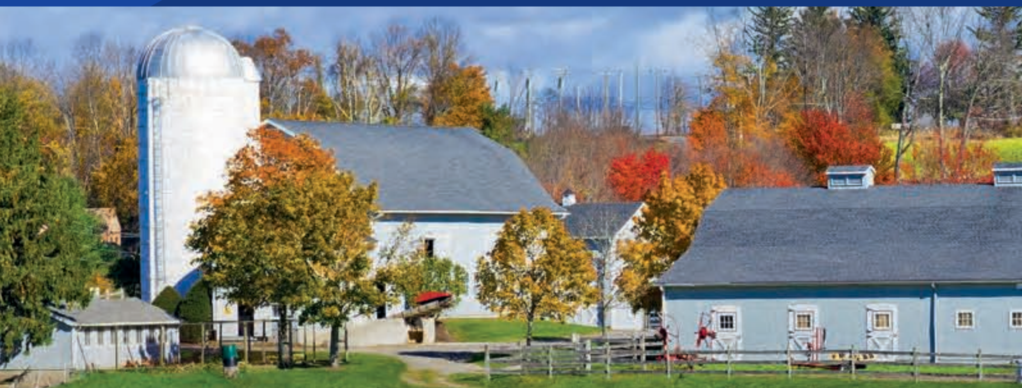
Distributing the value of assets based upon the percentage of ownership first will increase the number of assets which investors are eligible to claim an immediate write-off or low-value pooling for. As a result, the rate at which depreciation deductions can be applied will be accelerated and the owners will receive increased deductions in the earlier years of ownership.

BMT's split reports simplify this process and allow owners to get more from their investment. Each split report can also be provided in CSV format for easy importing into accounting software.

There is an option for owners who prefer a depreciation schedule without any split applied should this be required.

Visit www.bmtqs.com.au/co-ownership-example to see how a split report increases deductions for two owners.

Depreciation is a cash cow for farmers



Could you claim $149,187 from your rural property?

The most recent Commonwealth Bank Agri Insights Report suggests that investment in Australian rural properties remains strong.

The report revealed that investment intentions have strengthened among cotton, beef, lamb, summer grain and wool producers, while horticultural investment intentions are at their highest level to date.

Adding to the expected increase in production, the report projects that a significant proportion of farmers intend to spend more money on items used on their properties. 25 per cent of those surveyed nationally plan to purchase plant and equipment items, while 38 per cent planned to spend on fixed infrastructure.

While BMT Tax Depreciation experienced substantial growth in the number of depreciation schedules requested by agricultural property owners over the past two financial years (a 36 per cent increase during 2014-2015 and a 51 per cent increase during 2015-2016), many farmers are still failing to consult with a specialist Quantity Surveyor to ensure their claims are maximised.

Dairy farm deductions

Asset	Cost	Depreciation rate	First full year deduction
Automatic milk line washing systems	$18,176	20%	$3,635
Automatic feeding system	$17,976	16.67%	$2,997
Cattle yards	$17,647	6.67%	$1,177
Dairy milking sheds	$58,627	6.67%	$3,910
Exercise yards	$1,765	10%	$177
Feed mixers	$25,882	28.57%	$7,394
Fences	$105,883	100%	$105,883
High pressure pumps and hoses	$3,185	20%	$637
Hot water services	$2,000	20%	$400
Manure spreaders	$4,353	20%	$871
Robotic milking systems (multi-box)	$49,824	20%	$9,965
Steel silos (used for fodder storage)	$13,129	33.33%	$4,376
Water troughs	$7,765	100%	$7,765
Total	**$326,212**		**$149,187**

The depreciation deductions in the above table have been calculated using the diminishing value method. An immediate write-off has been applied to fences and water troughs. Silos have also been depreciated over three years as per the accelerated depreciation concessions outlined in the 2015-2016 federal budget for primary producers. The owner of this farm was not classified as a small business.

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Given that farmers can experience times of financial hardship (particularly during droughts, floods or fluctuations in the price of goods being sold) the additional cash flow that depreciation claims can deliver to rural property owners is often vital.

To demonstrate the difference that depreciation claims can make for farmers, we looked at how BMT helped the owner of one dairy farm.

The farmer purchased a property for $1.75 million and on settlement they requested a depreciation schedule. A detailed site inspection completed by our expert team discovered they could claim deductions for the assets outlined in the table. The table also shows the first full financial year deductions the dairy farmer could claim.

In the first full financial year alone, BMT found $149,187 in depreciation deductions for the assets listed.

The dairy farm owner is also entitled to claim additional capital works deductions for the barn and a homestead.

In total, the owner of a typical dairy farm with these assets and structures could expect to claim between $850,000 and $1.1 million over the life of the property.

Incentives outlined in the 2015 budget for primary producers mean that farmers are entitled to write-off a number of assets immediately. This includes fences, dams, tanks and irrigation channels. However, the Australian Taxation Office does stipulate additional rules if owners are depreciating second-hand assets.

It is therefore essential to seek expert advice and to obtain a comprehensive depreciation schedule to ensure deductions are correct and maximised based on the individual circumstances and requirements of the property owner.

BMT Tax Depreciation is a proud member of:

AIQS RICS

There's a way Australians of all ages can benefit

Rentvesting offers an alternative way to enter the property market

Recent research has revealed a surprising rise in the number of generation Y investors who own investment properties.

The latest ING Direct Financial Wellbeing Index revealed 22 per cent of eighteen to thirty four year olds (generation Y investors) own at least one investment property. This was followed closely by 20 per cent of thirty five to forty nine year olds (generation X) and 19 per cent of fifty to sixty four year olds (baby boomers).

In recent years rentvesting, which generally refers to those individuals who purchase an investment property in a place they can afford whilst renting in place they would like to live, has become popular with buyers as they try to negotiate a way to enter the market.

In fact, the latest data from the Australian Bureau of Statistics (ABS) on Housing Occupancy and Costs for 2013-2014 revealed that 263,000 Australian households own an investment property but are currently renting their usual residence.

While this is a much smaller number than the 1.2 million owner occupiers who possess additional properties reported by the ABS, the number of rentvestors is continually growing. Research has also suggested the age group of those who rentvest is widening and subsequently the definition of the term has become more generic.

Apart from the obvious influence that increasing house prices have had on buyers, particularly those looking to purchase within capital cities, other factors which have encouraged rentvesting include:

- The ability to fulfil lifestyle choices, as rentvestors can choose to live closer to the city or coastal areas where there are more employment opportunities and renting is often cheaper than mortgage repayments
- An evolution in generational behaviour as people seek instant gratification and desire a higher level of living conditions

> “Additional cash flow from tax deductions will help property owners in the long term.”

- Increased flexibility, as rentvesting allows Australians to relocate as new opportunities arise or provide the additional discretionary funds which allow them to pursue further education or personal hobbies such as travel whilst still having the security of an investment for their future
- The ability to claim deductions for expenses relating to the property they own such as property management fees, interest on a loan, council rates, insurance, repairs and maintenance and depreciation

The income generated from the property, along with the tax deductions available reduce holding costs. In many scenarios, the end net result is a positive cash flow.

By purchasing in an area which has potential for future capital growth, and taking advantage of all of the available tax deductions, an investor is provided with the opportunity to save and create equity.

These savings and any equity held in an existing investment can be useful to help grow a property portfolio or even to purchase a home in which to live in the future.

Before deciding to rentvest, it's important to consider the downsides, such as the capital gains tax implications which may apply should the investor decide to sell the property one day.

Another potential disadvantage is the instability and uncertainty rentvestors may face as renters. They might be required to move every couple of years and are limited to what they can do to their home in terms of renovations and updates. Although rentvestors have worked hard to become property owners, they're still facing the same inconvenience some renters experience.

Whether or not rentvesting is the right tactic for your individual circumstances is a decision best made with the assistance of an Accountant. Either way, we expect to see the trend continuing to grow in popularity.

Discover the build cost of your next project

The BMT Construction Cost table is a useful guide to the cost of construction for all types of residential and commercial buildings.

In order to discover the build costs of your next project, adjust costs for various regions simply by multiplying the construction cost by the regional variations opposite. This will provide you with an approximate construction cost per square metre in your area.

Alternatively, you can download and calculate build costs using the BMT Cost Calc app at **bmtqs.com.au/cost-calc**

Regional variations

Hobart	90 - 115%
Canberra	95 - 110%
Melbourne	95 - 110%
Adelaide	95 - 108%
Sydney	100%
Perth	100 - 120%
Brisbane	95 - 115%
Cairns	110 - 130%
Darwin	110 - 130%

Construction type			Level of finish		
			Low	Medium	High
House		3br weatherboard project home, level block, single level, shelf design	$1,135	$1,295	$1,645
		3br brick veneer project home, level block, single level, shelf design	$1,180	$1,340	$1,690
		3br full brick project home, level block, single level, shelf design	$1,220	$1,380	$1,760
		4br weatherboard home, level block, single level, shelf design	$1,690	$1,800	$2,295
		4br brick veneer home, level block, single level, unique design	$1,790	$1,885	$2,420
		4br full brick home, level block, single level, unique design	$1,970	$2,290	$2,510
		3br brick veneer project home, level block, two level, shelf design	$1,225	$1,390	$1,770
		3br full brick project home, level block, two level, shelf design	$1,260	$1,470	$1,860
		4br brick veneer home, level block, two level, unique design	$1,880	$2,050	$2,340
		4br full brick home, level block, two level, unique design	$1,850	$2,030	$2,320
		Architecturally designed executive residence	$2,720	$3,570	$5,120
Townhouse		2br, single level brick veneer townhouse, including allowance for common property	$1,575	$1,860	$2,160
		2br, 2 level brick veneer townhouse, including allowance for common property	$1,630	$1,900	$2,290
		3br, single level brick veneer townhouse, including allowance for common property	$1,555	$1,840	$2,130
		3br, 2 level brick veneer townhouse, including allowance for common property	$1,610	$1,960	$2,300
Unit		3 level walk-up unit complex, concrete structure, ground floor parking	$1,860	$2,020	$2,520
		3 level walk-up unit complex, concrete structure, basement parking	$1,835	$1,995	$2,495
		4-8 level unit complex, including lift, concrete structure, ground floor parking	$2,130	$2,320	$2,890
		4-8 level unit complex, including lift, concrete structure, basement parking	$2,100	$2,290	$2,860
		8 or more level unit complex, including lift and basement car parking	$2,250	$2,600	$3,400
Commercial		1-4 level open plan offices, including A/C & lifts, excluding fit out	$1,910	$2,170	$2,610
		4-8 level open plan offices, including A/C & lifts, excluding fit out	$2,070	$2,260	$2,740
		8 levels and over, including A/C & lifts, excluding fit out	$2,990	$3,200	$3,380
Industrial		High bay warehouse, standard configuration, concrete floor, metal clad	$945	$1,065	$1,155
		High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,165	$1,235	$1,385
Retail		Suburban shopping mall area including A/C	$2,400	$2,520	$2,870
		Supermarket, including A/C, excluding fit out	$1,520	$1,640	$1,870
Hotel / Motel		Single level boutique motel, including A/C, guest facilities	$3,000	$3,500	$4,750
		Single level tavern/hotel, including A/C, excluding loose item fit out	$2,580	$3,130	$3,830

The above rates are exclusive of Goods and Services Tax (GST). Please visit www.bmtqs.com.au for more information.

The construction costs are average prices in a metropolitan area and should be adjusted with reference to specific conditions. They are not intended to be relied upon or used for tendering or pricing variations. Construction costs include costs of labour and materials, waste, hoisting, fixing in position and a profit allowance based on prevailing market conditions but exclude any GST, costs of land, demolition and any work outside the footprint of the building.

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