MAVERICK™

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FEATURED

Proposed changes could impact investors

New rules on claiming plant and equipment may affect you

On Tuesday the 9th of May 2017 the government proposed changes to the depreciation of plant and equipment assets in the federal budget.

This prompted a number of property investors to contact BMT to discuss how they might be affected. Understandably so, as the last major changes to depreciation legislation were made by the government in the mid 1980's.

The main concerns investors had were about the impact the changes would have on their existing arrangements, future purchases and more widely on the property market.

The good news for investors is that properties purchased prior to 7:30pm on budget night are unaffected, as the budget notes are clear that the policy will be grandfathered. This means that any investor who exchanged contracts prior to the 9th of May 2017 can continue to claim depreciation deductions as normal.

The proposed changes remove a subsequent owner's ability to claim a depreciation deduction for plant and equipment assets (the easily removable or mechanical fixtures and fittings) in properties which exchanged contracts after the 9th of May 2017.

The budget notes also imply that the proposed changes will only apply to second-hand residential properties.

Continued over page >

INSIDE THIS ISSUE 42 | 2017

1-2 FEATURED
- Proposed changes could impact investors

3 BMT NEWS AND TECHNICAL
- Celebrating twenty years of success
- Small business incentives extended

4 COMMERCIAL CORNER
- The industrial property revolution

5 MORE FOR YOU
- Trend sees home owners becoming investors

6 CONSTRUCTION COSTS
- Discover the build cost of your next project

BMT Tax Depreciation
QUANTITY SURVEYORS

Any investor who purchases a brand new property can continue to claim depreciation for plant and equipment as normal.

The changes won’t affect an investor’s ability to claim the capital works component (deductions available for the wear and tear of the building structure and fixed items). Depreciation of plant and equipment for non-residential/commercial properties is also unaffected.

The below scenario explains in detail how depreciation plays a role in assisting property investors to improve the cash return from their property. It also compares the depreciation deductions for the first full financial year on a three year old house purchased for $600,000 before and after the 9th of May 2017.

In the example, the owner receives a rental income of $560 per week or a total income of $29,120. Expenses for the property, such as interest, council rates, property management fees, insurance and repairs and maintenance total $41,028.

In the first scenario, the owner is able to claim a total depreciation claim of $12,397 from both capital works deductions and plant and equipment depreciation.

Using depreciation, this investor is experiencing a weekly cost of $56 per week to hold the property.

In the second scenario, as the owner exchanged contracts on the property after the 9th of May 2017, they are only able to claim $6,126 in capital works deductions and will be unable to claim $6,271 in plant and equipment deductions.

This reduced claim would result in the investor’s weekly cost of holding the investment property increasing from $56 to $101, a difference of $45 per week or $2,340 in the first full financial year.

It’s important to note that the change will have the same effect on both positive and negative cash flow scenarios.

A tax depreciation schedule from a specialist Quantity Surveyor is still beneficial and necessary to ensure investors maximise and claim accurate deductions.

The information in this article is correct as of date of printing, 10th of July 2017.

To learn more about the proposed changes outlined in the federal budget, visit **bmtqs.com.au/budget-2017**

Three year old house purchased for $600,000

Scenario before 9th of May 2017 with 1st year total depreciation claim of $12,397		**Scenario after 9th of May with 1st year capital works deduction only of $6,126**	
Annual expenses	$41,028	Annual expenses	$41,028
Annual income ($560 x 52 weeks)	$29,120	Annual income ($560 x 52 weeks)	$29,120
Pre-tax cash flow (income – expenses)	-$11,908	Pre-tax cash flow (income – expenses)	-$11,908
Total taxation loss (pre-tax cash flow + total depreciation including plant and equipment)	**$24,305**	**Total taxation loss (pre-tax cash flow + capital works deduction only)**	**$18,034**
Tax refund (tax loss x tax rate of 37%*)	$8,993	Tax refund (tax loss x tax rate of 37%*)	$6,673
Annual costs of the investment property (pre-tax cash flow + refund)	$2,915	Annual costs of the investment property (pre-tax cash flow + refund)	$5,235
Weekly cost of the investment property	$56	Weekly cost of the investment property	$101

Difference = $45 per week

2017_TA302

Depreciation deductions have been calculated using the diminishing value method.
*Calculations for the investor’s tax refund have been completed at a standard tax rate of 37 per cent.

Celebrating twenty years of success

This July, the team at BMT Tax Depreciation are celebrating a successful twenty years of business. A milestone such as this is something which isn't possible without the support of our valued clients and referrers.

Many of you have been on the journey with us – having worked with our team from the early days in 1997 through to supporting us to become the business we are today.

Our extensive industry experience has seen us complete depreciation schedules for individual property investors through to large scale commercial properties.

Servicing a large range of residential and commercial property owners across Australia has meant working with some diverse, and sometimes unusual, buildings in the process.

Some of the unique schedules we have completed include the iconic Melbourne Star "Observation Wheel", the Sydney Polo Club and the world's largest rocking horse in South Australia.

One of the highlights of working in our industry is the ability to educate and inform investors of the depreciation deductions they could be entitled to claim. No matter what type of property, it is always worthwhile to seek the expertise of a Quantity Surveyor and find out the deductions which can be claimed.

Often the most rewarding moment for our staff is to see how pleasantly surprised our clients are at the extra cash returns we can achieve for them.

We would like to take this opportunity to thank you for your continued support and look forward to working together for many more years to come.

Small business incentives extended

More can take advantage of $20,000 immediate write-off

In March 2017, as part of Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016, the definition of a small business was changed to include those enterprises with an aggregated turnover of less than $10 million.

At the same time, the government was able to secure company tax cuts. These changes meant that from the 2016/2017 financial year, companies with an aggregated turnover of less than $10 million would be paying tax at the rate of 27.5 per cent, a 2.5 per cent reduction.

Companies with a turnover of up to $25 million would also receive the 2.5 per cent reduction to 27.5 per cent from the 1st of July 2017.

> "More businesses will be entitled to deduct plant and equipment assets with a value of less than $20,000 immediately."

The changes also meant that concessions introduced during the May 2015 federal budget, which allowed small businesses with an aggregated turnover of less than $2 million to claim an instant asset write-off, would be extended to include those enterprises that met the new turnover threshold of less than $10 million.

While these concessions were originally planned to end on the 30th of June 2017, the government has proposed that these changes will be extended by an additional year as part of the 9th of May 2017 federal budget.

Essentially this means more businesses will be entitled to deduct plant and equipment assets with a value of less than $20,000 immediately and for a l onger period than initially planned.

Commercial property owners or tenants can consult with one of our expert staff for advice on how this ruling change will affect their depreciation deductions.

To learn more about claiming depreciation for a commercial property, visit **bmtqs.com.au/commercial**

The industrial property revolution

Investors to benefit from demand for distribution sheds and warehouses

If you've ever bought something online, you probably haven't put much thought into the detailed process from purchase to delivery.

With the rise of online retailers such as Amazon, this process has become very systematic and sophisticated using a mix of advanced technology and human labour to pick, pack and send orders. This process usually takes place within an industrial warehouse.

In 2016 there were just over $4.5 billion in industrial sales nationally, slightly above the five year average of $4.3 billion. According to research from Colliers International, this upward trend is set to continue with strong demand from offshore Asian-based investors and Australian-based local funds.

So why is demand rising for this type of property?

Demand for inventory storage, distribution centres and retail warehousing is in line with the general rise in online shopping in Australia. Food processing and storage facilities are also highly sought after while there is opportunity locally for businesses to take advantage of rising export demand from countries such as China.

Furthermore, a low interest rate environment, strong GDP growth and a weaker local dollar (which can encourage an increase in net exports) have all contributed to this demand.

Commercial investment property

Building type	Purchase price	Year 1 depreciation	Cumulative year 1-5 depreciation
Small industrial shed	$560,000	$8,500 - $12,500	$37,740 - $55,500
Storage warehouse	$1,000,000	$29,000 - $35,000	$120,000 - $145,000
Industrial distribution warehouse	$1,000,000	$39,200 - $51,200	$139,500 - $185,500

2017_TA303

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

This is resulting in some interesting market trends.

More jobs and economic hubs are being created outside of metro areas including south east Queensland, the north and south coast of New South Wales, on the outskirts of Melbourne in Victoria and in the Pilbara region of Western Australia.

Research from Colliers International and Jones Lang LaSalle (JLL) points to an increase in sale and leaseback programs for industrial properties. This is likely due to corporations looking to capitalise on price increases while fund managers continue to pay premiums for stabilised income profiles.

Changing technology and consumer behaviour is creating demand in this market. Evolving shopping behaviours and the growth of online retail is affecting the type of commercial space required to make mass distribution effective.

As the demand for industrial property grows across the nation, it is important for building owners to be aware of the depreciation benefits for these properties. An investor's depreciation benefits vary depending on the type of building, its age, use and fit out.

The table opposite highlights the substantial depreciation returns that industrial properties can provide to their owners.

Some typical assets which can be found in an industrial warehouse include lighting, mechanical ventilation, cranes and weighing systems.

It's important to note that both commercial business owners and their tenants can claim depreciation and capital works deductions on industrial buildings. Owners can claim for the existing building structure, any fixed assets and plant and equipment assets they own while tenants can claim any fit out they install after their lease commences.

Trend sees home owners becoming investors

Discover how your tax situation is transformed

A recent analysis of schedules prepared by BMT Tax Depreciation highlighted that 22 per cent of schedules were for primary places of residence (homes) which the owners turned into rental properties.

This demonstrates a popular trend occurring in the residential market, in which a significant number of home owners are recognising the additional value of renting out their home rather than selling.

There are many reasons for this trend. Some home owners may need to temporarily relocate, with a plan of returning to their home. There could also be external economic factors or events which create a temporary peak in rental demand, causing homeowners to take advantage of the higher rental yield.

The most common reason is usually due to the prospect of long term capital growth along with the opportunity to use equity to finance the next home and avoid selling costs.

Across some of our major cities, the majority of people who adopted this strategy would have achieved substantial capital growth in recent years.

This particularly relates to those acquiring their next primary place of residence, having carried more than one property through a housing boom. Of course this can work in reverse should there be a correction in housing prices.

No matter what reason a home owner has when deciding to rent out their home, it's important they're aware how this will transform their tax situation.

The Australian Taxation Office requires owners of investment properties to report any income they earn. They also allow owners of income producing properties to claim the expenses associated with the property.

Some of the deductible expenses for an income producing property include interest on a loan, council rates, property management fees and insurance premiums.

By renting out their home, owners will also become eligible to claim depreciation deductions for the structural components of the building as well as the plant and equipment assets contained in the property, subject to qualifying dates.

Regardless of whether a property is income producing or not, the structure and fixtures experience wear and tear over time and depreciate. However, it is only when the property starts to produce income that the owner can start to claim this wear and tear as a deductible loss.

A depreciation schedule will commence from when the property was initially purchased. If a depreciation schedule is provided by a specialist, it should show a partial financial year calculation for the period it was income producing.

A specialist Quantity Surveyor will also structure a depreciation schedule to maximise deductions during the time that a property is income producing and minimise deductions when the property was a primary place of residence. An example of this is establishing a low-value pool for relevant assets at the right time.

Low-value pooling is a method where low-cost assets with an opening value of less than $1,000 and low-value assets with a written down depreciable value of less than $1,000, can be depreciated at an accelerated rate. If a property was formerly a home, it is best to hold off any low-value pooling until the property starts to produce income.

If you are thinking about renting out your home, BMT can provide you with a free estimate of the likely depreciation deductions that will become available.

You should always discuss renting out a home with your Accountant; including the potential tax implications of Capital Gains Tax (CGT) should you plan to sell down the track.

To learn more about CGT exemptions and the repercussions which may apply, read our previous article **bmtqs.com.au/maverick/capital-gains-tax**

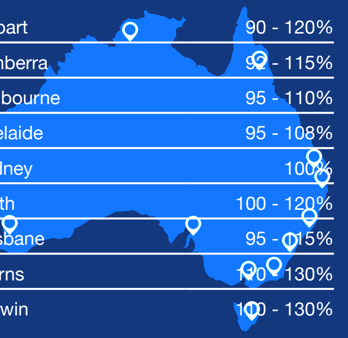
Discover the build cost of your next project

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 - 120%
Canberra	92 - 115%
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	$1,195	$1,355	$1,705
House	3br brick veneer project home, level block, single level, shelf design	$1,240	$1,400	$1,705
House	3br full brick project home, level block, single level, shelf design	$1,280	$1,440	$1,820
House	4br weatherboard home, level block, single level, shelf design	$1,750	$1,860	$2,355
House	4br brick veneer home, level block, single level, unique design	$1,850	$1,945	$2,480
House	4br full brick home, level block, single level, unique design	$2,040	$2,360	$2,580
House	3br brick veneer project home, level block, two level, shelf design	$1,285	$1,450	$1,830
House	3br full brick project home, level block, two level, shelf design	$1,320	$1,530	$1,920
House	4br brick veneer home, level block, two level, unique design	$1,940	$2,110	$2,400
House	4br full brick home, level block, two level, unique design	$1,910	$2,090	$2,380
House	Architecturally designed executive residence	$2,780	$3,630	$5,180
Townhouse	2br, single level brick veneer townhouse, including allowance for common property	$1,865	$2,150	$2,450
Townhouse	2br, 2 level brick veneer townhouse, including allowance for common property	$1,920	$2,190	$2,580
Townhouse	3br, single level brick veneer townhouse, including allowance for common property	$1,845	$2,130	$2,420
Townhouse	3br, 2 level brick veneer townhouse, including allowance for common property	$1,900	$2,250	$2,590
Unit	3 level walk-up unit complex, concrete structure, ground floor parking	$1,965	$2,125	$2,625
Unit	3 level walk-up unit complex, concrete structure, basement parking	$1,940	$2,100	$2,600
Unit	4-8 level unit complex, including lift, concrete structure, ground floor parking	$2,250	$2,440	$3,010
Unit	4-8 level unit complex, including lift, concrete structure, basement parking	$2,215	$2,405	$2,975
Unit	8 or more level unit complex, including lift and basement car parking	$2,365	$2,715	$3,515
Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	$2,015	$2,275	$2,715
Commercial	4-8 level open plan offices, including A/C & lifts, excluding fit out	$2,350	$2,540	$3,020
Commercial	8 levels and over, including A/C & lifts, excluding fit out	$3,360	$3,570	$3,750
Industrial	High bay warehouse, standard configuration, concrete floor, metal clad	$970	$1,100	$1,190
Industrial	High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,200	$1,270	$1,420
Retail	Suburban shopping mall area including A/C	$2,535	$2,655	$3,005
Retail	Supermarket, including A/C, excluding fit out	$1,605	$1,725	$1,955
Hotel / motel	Single level boutique motel, including A/C, guest facilities	$3,080	$3,580	$4,830
Hotel / motel	Single level tavern/hotel, including A/C, excluding loose item fit out	$2,605	$3,155	$3,855

The above rates are exclusive of Goods and Services Tax (GST). Please visit **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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Sydney NSW 2000

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Parramatta NSW 2150

Brisbane
Level 7, 320 Adelaide Street,
Brisbane QLD 4000

Gold Coast
Suite 30610, Level 6 Southport
Central 3, 9 Lawson Street,
Southport QLD 4215

Newcastle
19 Brunker Road,
Broadmeadow NSW 2292

Melbourne
Level 50, 120 Collins Street,
Melbourne VIC 3000

Darwin
Level 1, Paspalis Centrepoint
48-50 Smith Street,
Darwin NT 0800

Perth
Level 28, 140 St Georges Terrace,
Perth WA 6000

Cairns
181 Mulgrave Road,
Cairns QLD 4870

Canberra
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Canberra ACT 2600

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