MAVERICK™

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FEATURED

Plenty of lucrative deductions available

New legislation, new opportunities for investors

Changes announced as part of the 9th of May 2017 federal budget have now been legislated after being passed by the Senate on the 15th of November 2017.

For many property investors the new rules, outlined in *Treasury Laws Amendment (Housing Tax Integrity) Bill 2017*, have made what was already a complex topic a little more difficult to understand.

The new rules do not affect capital works deductions at all. The amended legislation only restricts property investors from claiming depreciation deductions for the decline in value of 'previously used' depreciating assets (plant and equipment) within second-hand residential investment properties.

An incorrect assumption some property investors have made after hearing about the changes is that they are no longer eligible to make a claim.

It's important to note that the new legislation only applies to investors who exchange contracts on a second-hand residential property after 7:30pm on the 9th of May 2017.

Even in cases where investors are affected by the change, there are still thousands of dollars to be claimed, particularly as capital works deductions typically make up between 85 to 90 per cent of the total claim.

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The new legislation provides opportunities for investors in the following scenarios as it does not impact them:

- Investors who purchase a brand-new residential property
- Investors who exchanged contracts on a residential property prior to 7:30pm on the 9th of May 2017
- Investors who add new plant and equipment assets to their property after purchase and directly incur the expense
- Investors who purchase properties which are considered to have been substantially renovated by the previous owner
- Non-residential and commercial properties
- Any deductions that arise in the course of carrying on a business
- Any residential property held in a superannuation plan (other than Self-Managed Super Funds)
- Investors who hold residential property in corporate tax entities, including company entities
- Home owners who turned their primary place of residence into a rental property prior to the 1st of July 2017

Capital works deductions

Item	Capital works rate	Remaining effective life (years)	First full financial year deduction	Five year cumulative deductions
Original structure and fixed items	2.50%	25	$6,250	$31,250
Kitchen cupboards (replaced 5 years ago)	2.50%	35	$289	$1,445
Kitchen benchtop (replaced 5 years ago)	2.50%	35	$72	$360
Outdoor pergola (installed 7 years ago)	2.50%	33	$240	$1,200
Plumbing (updated 5 years ago)	2.50%	35	$68	$340
Tiling (updated 5 years ago)	2.50%	35	$130	$650
Total			**$7,049**	**$35,245**

2018_TA004

For affected investors, it's important to note that the changes only impact the existing plant and equipment depreciation deductions found within a second-hand residential property. These are the easily removable fixtures and fittings such as carpets, hot water systems and air conditioners. Any brand-new plant and equipment assets added to the property after purchase are depreciable.

The capital works allowance, which is the component investors can deduct for the building structure, is unchanged. Examples include walls, the roof, doors, kitchen cupboards and more. These deductions can be claimed at a rate of 2.5 per cent per year for a maximum of forty years for any property in which construction commenced after the 15th of September 1987.

Often older properties have been renovated and qualifying capital works completed by a previous owner can be claimed by the new owner for any years that remain in the forty year period.

The table featured provides an example of common capital works items which the owner of a second-hand residential investment property could claim.

In this scenario the investor exchanged contracts on a fifteen year old, four bedroom, two bathroom house after 7:30pm on the 9th of May 2017. The previous owner of the property had completed renovations which included updating the kitchen through installing new cupboards and benchtops five years ago and adding an outdoor pergola seven years ago.

As the example shows, the investor would be eligible to claim $7,049 in capital works deductions in the first full financial year, or $35,245 in cumulative deductions over five years.

The investor would also be eligible to claim depreciation for any brand-new plant and equipment assets they chose to purchase and add to the property themselves.

Any plant and equipment assets that were installed by the previous owner can be excluded from the depreciation schedule and included in a capital loss schedule. This schedule can be used by the owner to offset any Capital Gains Tax liabilities should they choose to dispose of any assets or sell the property in future.

There are still substantial deductions available for any investors affected by the new legislation. It's always worthwhile consulting with a Quantity Surveyor to discuss what deductions can be claimed.

Investors can learn more about the recent depreciation legislation changes by downloading our white paper at **bmtqs.com.au/2017-budget-whitepaper**

Innovative new service for Property Managers

BMT Tax Depreciation are proud to announce our latest service New to Rent, which provides Property Managers with complimentary depreciation estimates tailored for each rental property their agency lists.

The estimates highlight the difference depreciation can make to an investor's cash flow and ultimately help industry professionals establish a point of difference in today's competitive property management industry.

For investor clients, being advised of the potential depreciation deductions they could be claiming is a valuable source of information, helping them to determine their after-tax cash position.

The New to Rent process is simple:

1. Our depreciation experts will identify each new rental property listed online
2. The depreciation estimates for these properties will be emailed to the Property Manager
3. The Property Manager can forward the estimate through to the owner, showing them the deductions they could be entitled to claim

Take advantage of this free service today.

Sign up at **bmtqs.com.au/new-to-rent-sign-up** or call **1300 268 277**.

This feature is also available through MyBMT. To register simply visit **mybmt.bmtqs.com.au**

New legislation helps Developers target investors

Estimates could boost new project sales

Most Developers are familiar with the need to incorporate a variety of tools when selling a new project to property investors. One of these valuable tools includes depreciation estimates.

The expert team at BMT Tax Depreciation help Developers, Builders and Project Marketers to sell their development projects faster to investors who may not realise the depreciation deductions available to them.

While there have been some recent changes to depreciation legislation, this only affects plant and equipment assets found in second-hand residential properties. It is important for Developers and Project Marketers to take note of the following points:

- Investors can still depreciate new plant and equipment assets within a new property
- Developers who build a new residential property will have a six-month grace period in which they can rent out the property (in a situation where they can't sell it straight away) and will continue to be able to sell the property to an investor with full depreciation entitlements

> “A depreciation estimate shows potential buyers the deductions they may be entitled to claim.”

The result of this new legislation, which came into effect from the 1st of July 2017, is that new properties will have higher depreciation deductions than second-hand properties available. Given this, property investors may start to target newer properties.

A tax depreciation estimate shows potential buyers the depreciation deductions they may be entitled to claim for any property they are considering purchasing within a particular development. This information can help the investor when crunching their numbers to make purchase decisions and ultimately make owning the property more financially viable.

The table featured provides an estimate of the likely deductions for a new residential unit and a two year old residential unit purchased for $700,000 after 7:30pm on the 9th of May 2017.

New residential unit, purchase price $700,000		Two year old residential unit, purchase price $700,000	
Likely deductions after 9th May 2017		**Likely deductions after 9th May 2017**	
First full year	$14,600	First full year	$8,200
Five year total	$59,800	Five year total	$41,000

The depreciation estimates in this scenario have been calculated using the diminishing value method.

2017_PRES554

As the example shows, the owner of the new residential unit is entitled to $14,600 in deductions in the first full financial year alone and the owner of the two year old unit can claim $8,200 in deductions in the first full financial year.

These estimates can be used by the property investor to help calculate their after-tax holding costs.

A BMT Tax Depreciation Estimate can be completed at any stage of a property's development (including before construction commences) and can be provided for a wide range of developments including commercial, retail, industrial, manufacturing and residential projects.

Developers can arrange a free estimate of the likely depreciation deductions available by visiting **www.bmtqs.com.au/developer-estimate**

White collar jobs drive office growth

Depreciation can benefit cash flow in a changing commercial sector

It's no secret that New South Wales and Victoria are experiencing significant population growth, largely fuelled by migration.

While this is notoriously increasing housing demand, particularly in Sydney and Melbourne, it's also leading to growth in white collar jobs and this boom is driving the need for office space in these capital city locations.

According to Deloitte Access Economics there will be an additional 5,600 office workers in the Sydney CBD over the next twelve months and 6,121 additional workers in Melbourne.

This trend is having some interesting effects on the demand for commercial offices.

Firstly, in Sydney and Melbourne CBD locations, there is more demand than ever for this type of asset. But supply is not keeping up, resulting in an increase in rent in these locations due to greater competition.

According to Colliers International, the average premium grade net rents now exceed $1,000 per square metre, well above historical averages.

Despite moderating sentiment, based on the NAB's Commercial Property Index during the third quarter of 2017, office buildings are tipped to generate the best rental returns throughout 2018.

Elsewhere in Australia, office markets look quite different. In Brisbane, Adelaide and Perth there is plenty of available stock and many companies are taking the opportunity to move their headquarters to more central CBD locations.

In contrast, businesses in Sydney and Melbourne are looking outwards to fringe locations due to the lack of space and increasing rents. As a result, areas such as North Sydney and Parramatta are continuing to grow as core office locations.

Investors are also looking towards the outer east in Melbourne for similar reasons. In fact, Colliers International has found that Sydney and Melbourne City fringe markets are leading the way for rental growth.

While it is somewhat of a mixed bag around the country, one thing remains consistent. Owners of office buildings and their tenants need to maximise their depreciation deductions to improve their cash flow and remain competitive.

Commercial office building purchased for $820,000

Without depreciation claim		Depreciation claim of $40,080*	
Annual expenses	$57,088	Annual expenses	$57,088
Annual income ($1,050 x 52 weeks)	$54,600	Annual income ($1,050 x 52 weeks)	$54,600
Pre-tax cash flow (income-expenses)	-$2,488	Pre-tax cash flow (income-expenses)	-$2,488
Total taxation loss	-$2,488	Total taxation loss (pre-tax cash flow - depreciation claim*)	-$42,568
Tax refund (total taxation loss x tax rate of 30%)	$746	Tax refund (total taxation loss x tax rate of 30%)	$12,770
Annual cost of the investment property (pre-tax cash flow + tax refund)	-$1,742	Annual cost of the investment property (pre-tax cash flow + tax refund)	$10,282
Weekly cash outlay	-$34	Weekly cash return	$198
Depreciation difference = $232 per week			

2016_TA519

The depreciation deductions in the above scenario have been calculated using the diminishing value method and are based on the income and expenses involved in holding the property only.
An annual turnover of more than $25 million is assumed.

The table featured shows the difference that claiming depreciation makes for an investor who owns this type of commercial property.

In this scenario, the office building was purchased for $820,000 and rented for $1,050 per week ($54,600 per annum). Expenses for the property including interest, rates, property management fees, repairs and maintenance totalled $57,088. Without depreciation, the investor is experiencing a loss of $34 per week.

The typical depreciation for this type of property would be $40,080 in the first full financial year.

By claiming depreciation, the property owner improved their loss of $34 per week to a return of $198 per week. This improved their tax refund by $12,024 in the first full financial year.

To learn more about the depreciation claimable for office buildings or any commercial property visit **bmtqs.com.au/commercial**

BMT Tax Depreciation is a proud member of:

Solar assets in the spotlight

Improve yields, boost deductions and help your tenants save

A principle concern of many Australian households in recent years has been rising electricity prices.

A preliminary report from the Australian Competition and Consumer Commission (ACCC) suggests that the increase in prices over the past decade is putting unsustainable pressure on Australian households and businesses.

The report highlighted that residential electricity prices have increased 63 per cent over the past ten years and that the average bill was around $1,524.

As many households struggle to absorb these increases, the ACCC has called on the federal government to focus on lowering prices, to boost the reliability of electricity and to reduce emissions by providing viable alternatives. One such alternative is solar power.

Australia is placed in a fortunate position in comparison with other nations when it comes to solar, occupying ninth place globally when it comes to the energy capacity of installed solar power. However, there is still a way to go when it comes to supporting the renewable energy sector and making solar a viable alternative for home owners and property investors.

According to the Clean Energy Council, renewable energy accounted for 17.3 per cent of Australia's total electricity generated in 2016. This was an improvement when compared to 14.6 per cent in the previous year.

Australian Bureau of Statistics (ABS) data supports this improvement, with a recent case study on growth in solar power in Australian homes* showing the proportion of households with solar power rising from 15 per cent in 2012 to 17 per cent in 2015-2016.

Despite this increase, ABS data shows that home owners were around seven times more likely to have solar panels present in 2015-2016 than renters.

Solar plant and equipment assets	Depreciable value	Depreciation rate	First full year deduction
Solar hot water system	$4,160	13.33%	$555
Solar generating system	$5,600	10%	$560
Solar pool heaters	$2,071	10%	$207
Solar garden lights	$32	100%	$32
Total	**$11,863**		**$1,354**

2018_TA069

The deductions in the above example have been calculated using the diminishing value method. They assume the investor exchanged contracts on the property prior to 7:30pm on the 9th of May 2017 or that the investor has installed the asset brand-new and directly incurred the expense.

According to Matter, a company which promotes solar panel installation to both landlords and tenants, there are 2.1 million Australian families who rent that don't have access to solar. Therefore, it has been argued that more needs to be done to incentivise landlords to install solar assets in their rental properties.

The issue is compounded as willing tenants are discouraged from installing solar themselves due to state tenancy laws requiring them to return the property to its original condition and landlords perceiving little benefit to outweigh the costs of installation. For investors looking to install solar assets in their rental properties, there are a range of benefits to consider.

In a recent survey from realestate.com.au and Origin Energy, the vast majority of renters stated that they would pay additional rent to live in a property with solar energy. Installing solar has the capacity to help investors to improve their rental property yields.

Solar assets are classified as plant and equipment assets. As such, investors who install these assets and directly incur the expense are eligible to claim depreciation.

The table featured highlights some example deductions which can be claimed for solar assets found in an eligible residential property.

Installing these assets can be a win-win for both landlords and tenants. Not only will this help to reduce greenhouse emissions, it can provide valuable deductions for the owner and improve rental affordability for tenants.

* Australian Bureau of Statistics 2015-2016 Survey of Income and Housing.

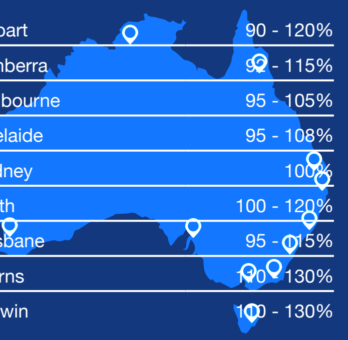
Discover the build cost of your next project

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 - 105%
Adelaide	95 - 108%
Sydney	100%
Perth	100 - 120%
Brisbane	95 - 115%
Cairns	100 - 130%
Darwin	100 - 130%

Construction type		Level of finish		
		Low	Medium	High
House	3br weatherboard project home, level block, single level, shelf design	$1,275	$1,435	$1,785
	3br brick veneer project home, level block, single level, shelf design	$1,365	$1,525	$1,830
	3br full brick project home, level block, single level, shelf design	$1,360	$1,520	$1,900
	4br weatherboard home, level block, single level, unique design	$1,830	$1,940	$2,435
	4br brick veneer home, level block, single level, unique design	$1,930	$2,025	$2,560
	4br full brick home, level block, single level, unique design	$2,160	$2,480	$2,700
	3br brick veneer project home, level block, two level, shelf design	$1,425	$1,580	$1,960
	3br full brick project home, level block, two level, shelf design	$1,480	$1,670	$2,060
	4br brick veneer home, level block, two level, unique design	$2,020	$2,290	$2,665
	4br full brick home, level block, two level, unique design	$2,200	$2,540	$2,780
	Architecturally designed executive residence	$2,900	$3,750	$5,300
Townhouse	2br, single level brick veneer townhouse, including allowance for common property	$1,990	$2,275	$2,575
	2br, 2 level brick veneer townhouse, including allowance for common property	$2,045	$2,315	$2,705
	3br, single level brick veneer townhouse, including allowance for common property	$1,970	$2,255	$2,545
	3br, 2 level brick veneer townhouse, including allowance for common property	$2,025	$2,375	$2,715
Unit	3 level walk-up unit complex, concrete structure, ground floor parking	$2,095	$2,255	$2,755
	3 level walk-up unit complex, concrete structure, basement parking	$2,050	$2,210	$2,710
	4-8 level unit complex, including lift, concrete structure, ground floor parking	$2,395	$2,585	$3,155
	4-8 level unit complex, including lift, concrete structure, basement parking	$2,345	$2,535	$3,105
	8 or more level unit complex, including lift and basement car parking	$2,495	$2,845	$3,645
Commercial	1-4 level open plan offices, including A/C and lifts, excluding fit out	$2,155	$2,415	$2,855
	4-8 level open plan offices, including A/C and lifts, excluding fit out	$2,505	$2,695	$3,175
	8 levels and over, including A/C and lifts, excluding fit out	$3,580	$3,790	$3,970
Industrial	High bay warehouse, standard configuration, concrete floor, metal clad	$1,010	$1,140	$1,230
	High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,240	$1,310	$1,460
Retail	Suburban shopping mall area including A/C	$2,700	$2,820	$3,170
	Supermarket, including A/C, excluding fit out	$1,710	$1,830	$2,060
Hotel / motel	Single level boutique motel, including A/C, guest facilities	$3,260	$3,760	$5,010
	Single level tavern/hotel, including A/C, excluding loose item fit out	$2,775	$3,325	$4,025

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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