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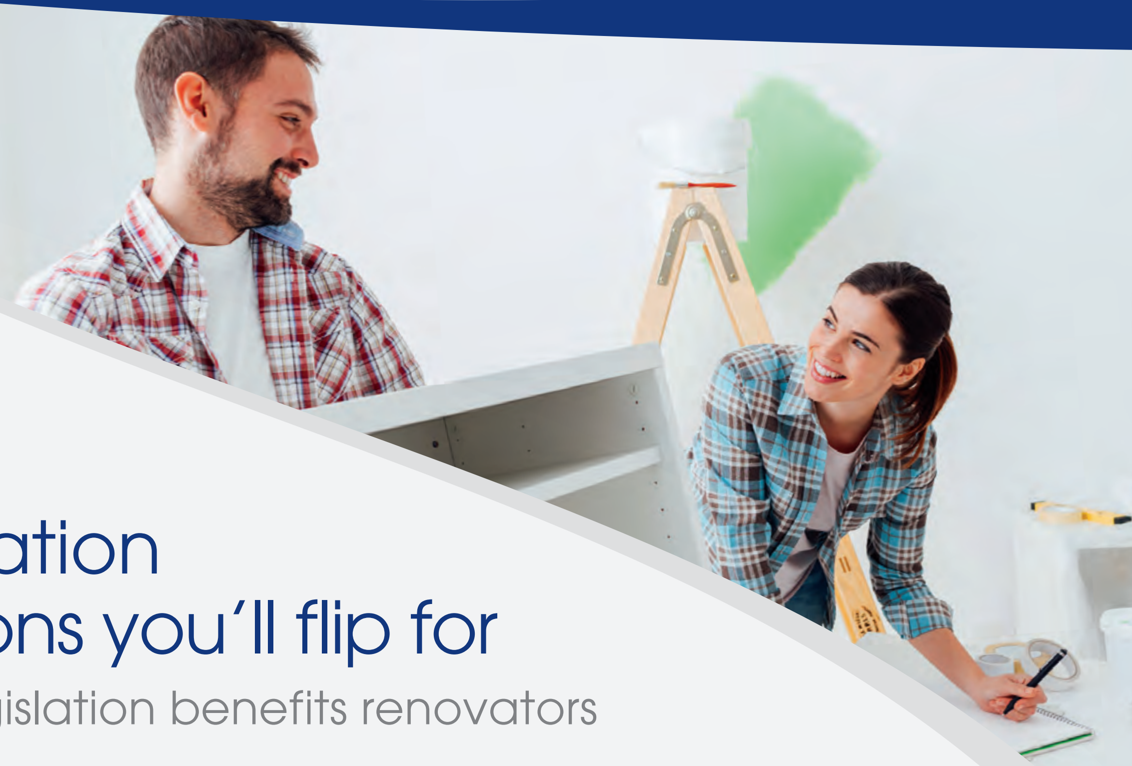

FEATURED

Depreciation deductions you'll flip for

Changed legislation benefits renovators

Renovating or 'flipping' property has become a huge trend in Australia, especially on the eastern seaboard where according to CoreLogic almost 7 per cent of transactions in Sydney, Melbourne and Brisbane were sold shortly after purchase following a renovation.

CoreLogic's data also demonstrates that 90 per cent of properties flipped during 2017 were sold for a profit.

A property 'flip' occurs when an investor buys, renovates and resells a property within a relatively short space of time, with the intention of making a profit.

Legislation passed through the Senate on the 15th of November 2017 has changed the way depreciation for pre-existing plant and equipment assets found in second-hand properties will be treated.

Plant and equipment depreciation covers all removable and mechanical assets which generally depreciate faster than the building.

The legislation states that investors who purchase second-hand residential properties after 7:30pm on the 9th of May 2017 cannot claim depreciation on pre-existing plant and equipment **unless** the property is deemed to have been substantially renovated or is brand new.

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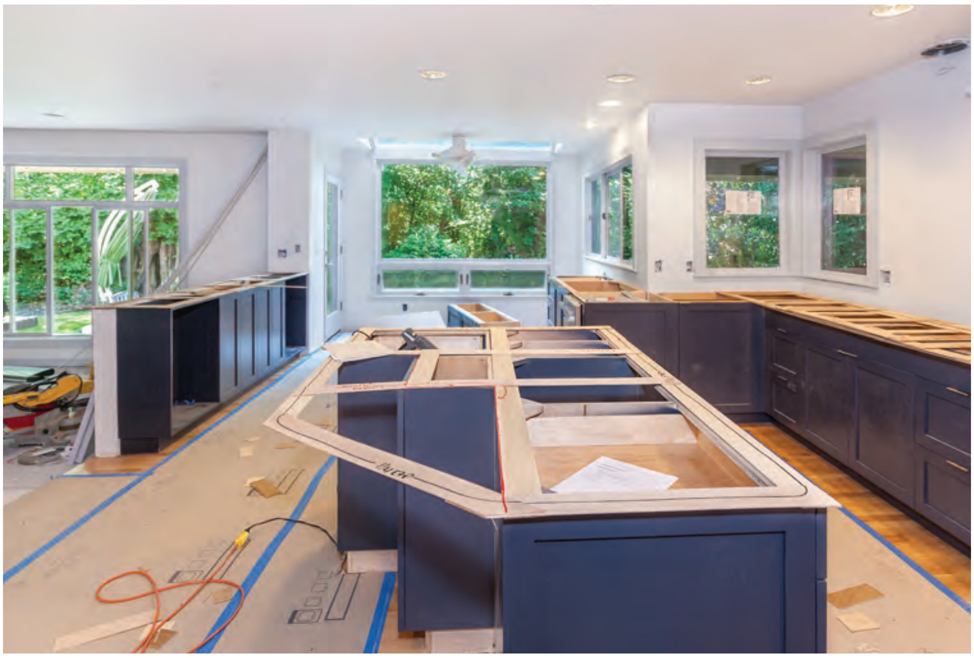
BMT Tax Depreciation
QUANTITY SURVEYORS

Below are some examples of structural and non-structural works that in combination could be considered substantial:

- **Structural:** altering, removing or replacing foundations, floors, supporting walls or part thereof (interior or exterior), lifting or modifying roofs, replacing existing windows or doors where brickwork is altered (single to double door)
- **Non-structural:** replacing electrical wiring or plumbing, replacing, removing or altering non-supporting walls.



Renovation example

	Opening value	Depreciation rate	First full year deduction
Air conditioner - split systems	$2,941	20.0%	$588
Automatic garage door controls	$188	*100.0%	$188
Automatic garage door motors	$765	**18.75%	$143
Bathroom accessories (freestanding)	$129	*100.0%	$129
Blinds	$978	**18.75%	$183
Carpets	$1,913	20.0%	$383
Ceiling fans	$1,205	**18.75%	$226
Dishwashers	$1,765	20.0%	$353
Exhaust fans	$518	**18.75%	$97
Garbage bins	$299	*100.0%	$299
Hot water systems	$2,294	16.7%	$383
Light shades	$522	**18.75%	$98
Rangehoods	$824	**18.75%	$155
Smoke alarms	$618	**18.75%	$116
Stoves	$3,176	16.7%	$530
Total Division 40 plant and equipment	**$18,135**		**$3,871**
Division 43 capital works 2018	**$90,560**	**2.5%**	**$2,264**
Division 43 capital works 1998	**$84,600**	**2.5%**	**$2,115**
Total first year deductions			**$8,250**

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The depreciation deductions in this table have been calculated using the diminishing value method.
*An immediate write-off has been applied to assets with an opening value of less than $300.
**Low-value pooling has been applied to assets valued less than $1,000. These items will depreciate at a rate of 18.75% in the first financial year and 37.5% from the second year onwards.

So, if a property is considered to be substantially renovated before it is sold, then the plant and equipment depreciation can be claimed on all the removable and mechanical assets by the new owner.

Capital works deductions on the structure of a building including any fixed and irremovable assets were not affected by the new legislation and generally make up 85 to 90 per cent of the total claimable amount. Current investors can continue to claim these deductions for both existing and new additions, regardless of when the work took place.

To demonstrate, we looked at an example of a second-hand property built in 1973 that an investor recently purchased.

The property had recently undergone a renovation. Due to the extent of the renovation, BMT Tax Depreciation could assess the property as substantially renovated, allowing the new owner to claim depreciation for all the plant and equipment and new capital works.

In addition, during their inspection BMT identified that a small extension had taken place in 1998. Because capital works deductions are unaffected by the legislation change, the current owners were able to claim for this renovation even though it was completed twenty years ago by previous owners.

The table featured to the left demonstrates the deductions this particular client could claim for plant and equipment depreciation and capital works.

As the table shows, BMT identified $8,250 in both capital works and depreciation deductions for the new owner of this property.

Investors who renovate a rental property they own must note that they are likely removing structures or assets that have a remaining un-deducted value. This can be claimed as a deduction in full when the asset is removed.

A specialist Quantity Surveyor should be engaged prior to construction work starting to make sure that all removed items are identified and captured within a depreciation schedule.

Investors who are considering purchasing any property can request a free tax depreciation estimate online at **bmtqs.com.au/estimate**

MyBMT – new research and insights feature

Make informed decisions at the click of a button with the new research and insights feature within MyBMT.

Learn more about the area in which your investment property is located through a range of complimentary tools.

The research and insights feature allows you to:

- Discover properties which have recently been listed for sale or available to rent in your area
- View key metrics such as recent Census data for the suburb where a property is located
- Keep up to date with planning applications and new developments near the location of your investment property
- Use PropCalc to calculate after tax holding costs for current or future purchases
- Generate a metric-based valuation for any property you have a schedule for within MyBMT

To explore MyBMT and the new research and insights feature, visit **mybmt.bmtqs.com.au** today.

ATO statistics provide insight for investors

Claims still strong despite changes

The Australian Taxation Office (ATO) recently released their taxation statistics for the 2015-2016 financial year.

These figures provide insight into the amount of deductions property investors claimed during that financial year.

During the 2015-2016 financial year, just under 3 million property investors claimed deductions relating to their rental property.

Of these investors, 1,381,138 claimed an average capital works deduction of $2,326. This was an increase of 2.71 per cent when compared to the average capital works deductions claimed during the 2014-2015 financial year.

Just over 2 million property investors claimed an average of $1,324 in plant and equipment depreciation deductions during the 2015-2016 financial year according to the ATO statistics. This was a 3.92 per cent increase when compared to the average plant and equipment deduction claimed during 2014-2015.

According to the ATO statistics, investors claimed a total average depreciation deduction of $3,650 during the 2015-2016 financial year. However, BMT Tax Depreciation found our clients an average total depreciation deduction of $9,099 during the same financial year.

> “We are still finding our clients an average of $8,893 in deductions this year.”

Following the changes made to depreciation legislation regarding plant and equipment found in second-hand properties in November 2017, it will be interesting to observe the ATO statistics as they are released for recent financial years.

During 2016-2017, BMT saw a slight decrease in the total average depreciation claim to $8,972. However, this decrease is to an extent due to a number of older properties nearing the end of their forty year effective life.

Despite the changes that have occurred to depreciation legislation, we are still finding our clients an average of $8,893 in deductions during the 2017-2018 financial year for all residential properties.

Furthermore, those properties directly affected by the changes in depreciation legislation, i.e. second-hand properties where contracts were exchanged after 7.30pm on the 9th of May 2017, still had an average claim of $5,033 in the 2017-2018 financial year.

It is essential for property investors to seek expert guidance on what they can claim to ensure they are not missing out on valuable deductions.

What's happening in retail?

Installing new assets helps businesses to evolve and save

The face of retail has certainly changed in recent years.

Not just in terms of offerings and services – retailers have also experienced changes relating to competition, external economic influences, online shopping and the market in general.

There are a few current happenings in the market to take note of.

At present we're experiencing the "Amazon Effect" and witnessing how Amazon's arrival in Australia last year is impacting the market. In addition, a number of big, well-known brands are reviewing their offerings amid rumours of poor performance and shut-downs. Not to mention local independent retailers, who may be struggling to keep up in a market now awash with global brands and increasingly competitive prices.

But it's not all doom and gloom for retailers.

According to recent research from Jones Lang LaSalle (JLL), demand for retail property has performed well. Retail property investment activity in 2017 was the second highest on record at $8.8 billion.

Savills Research confirms that all retail asset classes currently remain competitive and that last year's strong performance is expected to continue for the remainder of 2018.

While we're not seeing an end to retail by any means, from our perspective we are most certainly in the midst of an evolution.

According to JLL the retail sector is currently going through a period of adjustment. Savvy businesses are revising their business models to reflect changes in technology, the globalisation of the market and changing trends through generations.

Furthermore, many retailer investors are refining their portfolios, adjusting exposure to different asset types and seeking to diversify to improve their long-term risk profile.

These changes are helping to manage risks, while also creating opportunities and driving greater transaction activity in the market.

With a large number of products now online and often available at a cheaper price, physical stores are focusing on differentiating their product offering and are looking to give consumers an experience, product, service or atmosphere they cannot get online.

An example of this is shopping centres that offer unique experiences and services such as entertainment, food services, medical centres, gyms and other health facilities.

It's also apparent from the large amount of capital being invested into the redevelopment of major shopping centres nationwide.

With all these market changes, it's more important than ever that retailers remain competitive and manage their cash flow wisely.

As a result, we have seen a substantial increase in the number of retailers and owners of retail buildings requesting and organising depreciation schedules.

The example shown on the left demonstrates the difference that claiming depreciation can make to a retailer's cash flow.

In this example, the business owner (tenant) rented a space and installed a range of fixtures and fittings to fit the space out as a small clothing store.

While the retailer spent $34,750 on the fit out of their new business, they will be able to recover quite a significant portion of these expenses.

In the first full financial year they can claim $7,816 in depreciation deductions for these assets and additional deductions can be claimed in following years.

Retail clothing store deductions

Asset	Value	Depreciation rate	First full year deductions
Air conditioning - mini split system	$6,300	20%	$1,260
Change room chairs	$2,700	20%	$540
Clothing racks	$3,100	20%	$620
Counters (freestanding)	$3,000	20%	$600
Floating timber floor coverings	$7,500	20%	$1,500
Removable light shades	$1,550	40%	$620
Security system	$2,300	40%	$920
Shelving	$4,700	20%	$940
Mannequins x 4	$2,200	28.57%	$629
Window blinds	$1,400	13.33%	$187
TOTAL	**$34,750**		**$7,816**

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

In this scenario the client chose not to apply low-value pooling and they were not eligible to claim small business concessions.

Don't sell yourself short on Capital Gains Tax

Choose a schedule which covers all scenarios

Capital Gains Tax (CGT) has always been a complicated topic for property investors to understand.

There are a number of exemptions which may apply, and this means that investors may not always be liable to pay CGT.

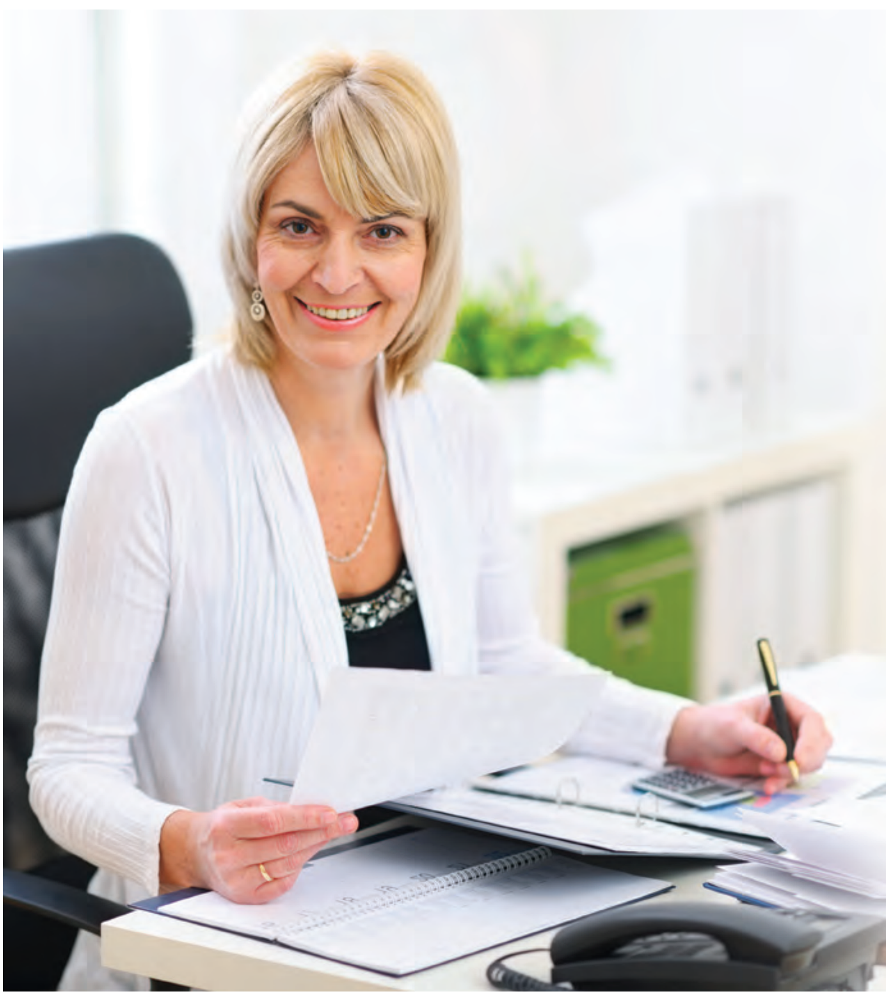
Introduced on the 20th September 1985, CGT is the tax payable on the difference between what it cost you to purchase an asset and the amount you received when you disposed of it.

Legislation changes surrounding plant and equipment and the acquisition of such assets have only made things even more complex.

The changes to depreciation legislation, as explained in our cover feature article, limit owners of second-hand residential properties purchased after 7:30pm on the 9th of May 2017 from claiming plant and equipment depreciation on previously used assets.

Newly purchased plant and equipment assets installed and capital works deductions for the structural component of the building can still be claimed as normal.

Under the new legislation a capital loss, or CGT Event K7 as explained under section 104-235 of the Income Tax Assessment Act of 1997, can be claimed when an asset is disposed of for less than its original cost and depreciation claims for the asset were denied because of the recently amended depreciation legislation.



Whilst the method of calculating CGT has not changed, it has become imperative for investors to be aware of the implications of CGT from the outset of their purchase, particularly when they are investing in a second-hand property.

For properties affected by the legislation changes, a specialist Quantity Surveyor should include a capital loss schedule of previously used plant and equipment assets which can't be claimed as depreciation during ownership.

Accountants can use this information to help determine the asset's opening and termination value.

There are a few scenarios where the capital loss schedule becomes crucial.

These include:

- When an asset is scrapped during ownership, CGT Event K7 can be used to establish a capital loss in that year, even if the property was not sold
- Where there is a partial or full CGT main residence exemption. Even though the property was a main residence they may still be eligible for a CGT Event K7
- When the contract date and settlement date for the sale of the property occur in separate financial years. The normal capital gain or loss from the property (CGT Event A1) is calculated in the financial year of contract exchange, where as the CGT Event K7 is calculated in the year of settlement

Although the capital loss schedule is needed for CGT calculations, some scenarios result in a nil effect because the value of plant and equipment is separated out of the purchase price to show an amount attributed to the property.

Any difference identified due to a reduced termination value of plant and equipment increases the portion of purchase price attributed to the property when the property is sold.

It is more important than ever that property investors consult with a specialist Quantity Surveyor and Accountant to ensure their claim is correct.

To learn more about the changes to plant and equipment depreciation legislation, visit **bmtqs.com.au/2017-budget-whitepaper**

To discover the CGT exemptions that may apply, visit **bmtqs.com.au/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 - 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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Melbourne VIC 3000

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48-50 Smith Street
Darwin NT 0800

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