MAVERICK™

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FEATURED

Increase rental income and deductions

See how a renovation achieved a 13 per cent yield

Australia's renovations industry appears to be profiting from weaker economic conditions and tighter lending standards, with alterations and additions to residential buildings hitting a historic high recently.

Australian Bureau of Statistics December Building Activity data showed a 6.6 per cent increase in alterations and additions in 2018, with renovation spending reaching $2.27 billion in the December quarter.

This indicates homeowners and investors seeking to improve capital values and increase rental income have been renovating their properties, rather than purchasing anew.

It's expected this boom will continue, as Master Builders Australia has forecast homeowners and investors will spend $8.8 billion annually on renovations over the next five years.

Renovations can significantly increase rental yields.

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BMT Tax Depreciation
QUANTITY SURVEYORS

According to the first CoreLogic Quarterly Rental Review for 2019, gross rental yields are currently around 4 per cent. However, in some scenarios, renovators can achieve a 13 per cent return on their renovation investment.

Let's look at a case study where an investor completed a $60,000 renovation.

The investor purchased a $410,000 residential property in January 2018. Originally constructed in 2004, the property was producing an income of $18,720 per year or $360 per week (a rental yield of 4.6 per cent).

Here is the investor's scenario before and after completing the renovation.

Investment property scenario

Original purchase price (before renovation)	$410,000
Rental income per annum prior to renovation	$18,720
Total renovation spend (completed in 2018)	$60,000
Property value on completion	$565,000
Rental income per annum after renovation	$26,520

In 2018 kitchen, bathroom and other cosmetic renovations were made. Newly installed plant and equipment assets included an oven, cooktop, dishwasher, rangehood, carpet, blinds, lights and a split-system air conditioner. The investor also installed fixed and structural items such as kitchen cabinets, benchtops, a bath, toilet and tiles.

A post-renovation valuation found the property was now worth $565,000. A property manager's rental appraisal also found the owner could earn $510 per week.

Below is the investor's tax scenario before and after the renovation.

Prior to the renovation, the investor was experiencing an annual cash loss of $1,207.

Overall, the investor increased their weekly rental income by $150, achieving 13 per cent yield on the renovation cost. They also turned their annual cash loss into a positive cash flow of $4,054, an additional $5,261.

While this example shows the great results possible, it's important to be aware of some tips and traps before committing to a renovation project.

When renovating, existing assets may have a residual depreciable value. A process known as scrapping should be applied to ensure undeducted entitlements are claimed.

Choosing which assets to install can also make a difference to what can be claimed once a renovation has been completed. Items that serve similar purposes, such as flooring, depreciate at different rates. Carpet installation with a $2,000 cost will result in $500 of depreciation deductions in the first full year compared with floating floorboards and tiles of the same cost, which result in $267 and $50 of deductions respectively.

Investors should stick to a budget when selecting items as it's easy to overcapitalise. This is particularly relevant in today's property market, where according to CoreLogic dwelling values fell by 7.4 per cent from their peak in October 2017 to the end of March 2019.

Speak with a Quantity Surveyor before starting work as they can provide advice on potential deductions available including whether depreciation legislation changes passed in November 2017 have any impact on your personal situation.

If you're living in a residential property while completing a renovation, work completed can impact future deductions should you rent the property later. Newly installed plant and equipment will be considered previously used if items are added to a residential property while living there. BMT data shows one in four people lived in their property before renting it out in FY 2018/19.

There are exceptions. Substantially renovated properties and capital improvements to fixed and structural items aren't affected. Even if fixed and structural improvements were completed by a previous owner, a new owner can still claim these items in the future.

To learn more, visit **bmtqs.com.au/renovations-add-value**

Depreciation before and after $60,000 renovation

Scenario **before** renovation (with depreciation claim of $3,985)		Scenario **after** renovation (with depreciation claim of $9,933)	
Annual income ($360 x 52 weeks)	$18,720	Annual income ($510 x 52 weeks)	$26,520
Annual expenses	$22,977	Annual expenses	$25,918
Pre-tax cash flow (income – expenses)	-$4,257	Pre-tax cash flow (income – expenses)	$602
Total taxation loss (pre-tax cash flow & depreciation)	**-$8,242**	**Total taxation loss (pre-tax cash flow & depreciation)**	**-$9,331**
Tax refund (tax loss x tax rate of 37%)	$3,050	Tax refund (tax loss x tax rate of 37%)	$3,452
Annual cost of the investment property (pre-tax cash flow + tax refund)	-$1,207	Annual cash flow of the investment property (pre-tax cash flow + tax refund)	$4,054
Weekly **cost** of the investment property	**-$23**	Weekly **cash flow** of the investment property	**$78**
Difference of $101 per week			

The depreciation deductions in this case study have been calculated using the diminishing value method.
Assumptions: The renovations were paid for by increasing the existing home loan and the investor falls into an income tax bracket of 37 per cent.

Track your rental property income and expenses with MyBMT

MyBMT's new 'Income and expenses' tool makes it easy to record and track property costs, so you don't forego any deductions at tax time.

Those with a tax depreciation schedule can record rental property income and expenses with the click of a button.

The tool has specific categories like body corporate fees, cleaning costs and insurance to simplify your expenditure. It also calculates your net rent, depreciation and total outlay so you can stay abreast of your financial position.

Weekly, fortnightly or monthly email reminders can be set up to update your expenses, ensuring you stay on track.

Once your rental property income and expenses are recorded, you can download a copy of an annual report. This can be shared with your investment team by clicking the 'Email my accountant' button. Not only does the new feature benefit investors, it makes it easy for your accountant when they complete your tax return.

MyBMT is a free comprehensive online portal designed to help you access and manage all your property investment and depreciation needs. Accountants and property managers can also register and share information as well as make requests on their clients' behalf.

To register for MyBMT and start recording your investment expenses, request a tax depreciation schedule and much more, visit **mybmt.bmtqs.com.au**

New Tax Ruling 2019/5

First residential effective life change in 14 years

Each new financial year the Australian Taxation Office (ATO) releases the latest Tax Ruling outlining changes to the effective lives of some plant and equipment assets.

Generally, the changes relate to the effective lives of commercial property assets. However, in Tax Ruling (TR) 2019/5, there were a number of changes made to depreciable assets found in residential properties for the first time in many years.

Last year BMT Tax Depreciation made a submission to the ATO recommending some more practical effective lives for particular assets. We also recommended the commissioner introduce a number of assets that were not previously specified. All of the recommendations have now been adopted and stated in TR 2019/5. The new ruling replaces TR 2018/4 and is effective from the 1st of July 2019.

Some of the affected residential plant and equipment assets include television sets, telephone handsets, microwave ovens, spa bath pumps, dishwashers, washing machines, clothes dryers, solar garden lights, freestanding bathroom accessories and carpet.

Freestanding bathroom accessories saw their effective lives reduced from five years to just three. These happened to be the most common asset found in residential properties in FY 2018/19 by BMT (appearing in 99.8 per cent of residential depreciation schedules completed).

Carpet, which was the most lucrative asset found in FY 2018/2019 by value (resulting in $29,904,067 in total deductions for all residential schedules and an average of $3,567 in deductions per report) also saw its effective life reduced from ten to eight years.

This means the ATO believe the wear and tear of these assets over time results in their value depreciating faster and they will need replacing sooner.

The changes to the effective lives of these and other residential assets could influence when an investor chooses to make improvements and replacements.

The date that a plant and equipment asset is acquired will determine the effective life used. This is because previously approved determinations can still be used for assets acquired within periods stipulated by previous rulings.

TR 2019/5 also included adjusted effective lives for assets found in other industries including banking, building society and credit union operations, financial and insurance services, scientific testing and analysis services, retirement villages and wholesale trade operators.

For a copy of the tax ruling with details of all of the plant and equipment assets affected, email **newruling@bmtqs.com.au**

You can also search and find the effective life and depreciable rate for any asset by visiting **bmtqs.com.au/rate-finder**

Latest ATO property investment statistics

Learn about the typical investor and their claims

The Australian Tax Office (ATO) recently released their taxation statistics for FY 2016/17, providing insight into what a 'typical' residential property investor looks like.

The ATO found 64 per cent of people who own investment properties have an income under $80,000 per year, despite the belief that most property investors are high-income earners. In fact, only 7 per cent earn more than $180,000 per year.

The report also found around 71 per cent of investors own one property and 19 per cent own two. People who own three or more properties are in the minority at just under 10 per cent.

Most property owners fall into the 40-plus demographic, with this age group owning around 74 per cent of investment properties. Those aged over 50 own the largest proportion at just under 49 per cent, followed by those aged between 40 and 49 at almost 25 per cent.

The ATO report also contained interesting statistics relating to the tax deductions property investors are claiming.

More people claimed tax back on their properties in FY 2016/17. Over 3 million property investors claimed deductions relating to their rental property, an increase of 3.38 per cent from the previous financial year.

Average plant and equipment deductions also increased. During FY 2016/17 more than 2 million property investors claimed an average of $1,363 in plant and equipment depreciation deductions, up from an average of $1,324 in the previous financial year.

The average capital works deduction the ATO reported as claimed in FY 2016/17 was $2,385 compared with $2,326 in FY 2015/16.

> "BMT found an average depreciation deduction of $8,846 in FY 2018/19."

BMT Tax Depreciation reporting looks at the average plant and equipment and capital works deductions for properties rather than by individual investors. While not a direct comparison, the average deductions we found for our clients in FY 2016/17 were significantly higher than those reported by the ATO.

In FY 2016/17, the average depreciation deduction for plant and equipment assets found by BMT for our clients' properties was $3,327, while the average capital works deduction found was $5,518.

Overall, we found a total average depreciation deduction of $8,845 for our clients' properties in FY 2016/17. The total average ATO claim per investor was $3,748.

More recently, BMT found an average depreciation deduction of $8,541 in FY 2017/18 and $8,846 in FY 2018/19 for our clients' properties.

ATO statistics at a glance

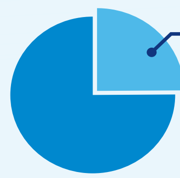
64% earn less than **$80k**

7% earn more than **$180k**

71% own one property

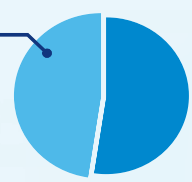
19% own two properties

10% own three or more



25% are aged **40-49**

49% are aged **50+**



ATO average depreciation deductions FY 2016/17

$3,748

$1,363 plant and equipment

$2,385 capital works

BMT Tax Depreciation is a proud member of:

Farmers reap the rewards of property depreciation

Earn more from your agribusiness

Operating an agribusiness can be tough. From extreme weather conditions to commodity price variation, farmers face an array of challenges each season. Often these challenges cause financial strain and significantly impact a primary producer's bottom line.

Claiming property depreciation deductions can help farmers during times of financial hardship by reducing tax liabilities.

In fact, BMT Tax Depreciation found an average of $99,729 in first full year depreciation deductions for our agricultural clients and saw a 5 per cent increase in the number of depreciation schedules requested in FY 2018/19.

Like owners of other income-producing properties, farmers are eligible to claim both capital works deductions for structural and fixed assets and depreciation for any plant and equipment assets found in an agribusiness.

The general depreciation principles apply to most depreciating assets used in primary production. However, there are specific primary production tax deductions available to help those in the agriculture industry. For example, water facilities, fencing and fodder storage assets all have generous industry-specific depreciation rates.

Primary producers can claim an immediate deduction for expenses incurred primarily for conserving or conveying water for an agribusiness. This can apply to water facilities such as dams, tanks, bores, irrigation channels and pumps. Both landowners and tenants are eligible to claim these immediate deductions in the year of the expense if the item was purchased after the 12th of May 2015.

Primary producers can also claim an immediate deduction for the cost of fencing if it's used primarily for agricultural operations and was acquired after the 12th of May 2015. If fencing was purchased before then, farmers can deduct the asset's cost over its effective life.

Farmers are also eligible to claim a deduction for the total cost of a fodder storage asset if the expense was incurred on or after the 19th of August 2018. Primary producers can also claim this deduction if the expense was incurred prior to this date, but the asset was installed and ready for use after the 19th of August 2018. In addition, assets installed before the 19th of August 2018 but after the 12th of May 2015 can be claimed over three years.

Agribusiness owners can only claim a deduction under primary production rules if no-one else has deducted an amount for the asset under these conditions. Some farmers may be eligible to claim deductions for second-hand assets under the instant asset write-off rules as a small or medium business.

The federal government recently extended eligibility to claim instant asset write-off concessions to businesses with revenues of less than $50 million and increased the threshold from $25,000 to $30,000 until the 1st of July 2020.

As depreciation regulations vary for agribusinesses, obtaining a depreciation schedule is the best way to ensure your tax deductions are maximised and lodged correctly.

Let's look at some of the plant and equipment assets BMT found for the owner of a sheep farm purchased for $1.45 million.

Sheep farm depreciation

Asset	Depreciable value
Fuel storage tanks	$7,976
Furniture freestanding	$10,941
Loading ramps	$10,953
Shearing machines	$15,576
Solar powered generating system	$33,824
Wool bins	$1,412
Wool presses	$12,941
Wool sheds	$175,902
Total assets listed	**$269,525**
Assets not listed	$98,889
Total	**$368,414**

Overall, BMT found $368,414 in plant and equipment assets that could be claimed at the appropriate depreciable rate.

In addition to these items, $175,669 in capital works deductions can be claimed over the life of the property by the owner of the sheep farm.

To find out how much you could save, visit **bmtqs.com.au/apply-online/commercial**

Discover the build cost of your next project

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

To discover the build costs of your next project, adjust costs for various regions by multiplying the construction cost by the regional variations opposite. This will provide an approximate cost for the 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	95 - 120%
Canberra	92 - 120%
Melbourne	95 - 105%
Adelaide	95 - 108%
Sydney	100%
Perth	98 - 120%
Brisbane	95 - 115%
Cairns	110 - 130%
Darwin	110 - 135%

Construction type		Level of finish (per m²) Low	Medium	High
House	3 BR weatherboard project home, level block, single level, shelf design	$1,324	$1,484	$1,834
	3 BR brick veneer project home, level block, single level, shelf design	$1,414	$1,574	$1,879
	3 BR full brick project home, level block, single level, shelf design	$1,409	$1,569	$1,949
	4 BR weatherboard home, level block, single level, unique design	$1,879	$1,989	$2,484
	4 BR brick veneer home, level block, single level, unique design	$1,979	$2,074	$2,609
	4 BR full brick home, level block, single level, unique design	$2,246	$2,566	$2,786
	3 BR brick veneer project home, level block, two level, shelf design	$1,474	$1,629	$2,009
	3 BR full brick project home, level block, two level, shelf design	$1,529	$1,719	$2,109
	4 BR brick veneer home, level block, two level, unique design	$2,069	$2,339	$2,714
	4 BR full brick home, level block, two level, unique design	$2,286	$2,626	$2,866
	Architecturally designed executive residence	$3,035	$3,885	$5,435
Townhouse	2 BR single level brick veneer townhouse including allowance for common property	$2,080	$2,365	$2,665
	2 BR 2 level brick veneer townhouse including allowance for common property	$2,135	$2,405	$2,795
	3 BR single level brick veneer townhouse including allowance for common property	$2,060	$2,345	$2,635
	3 BR 2 level brick veneer townhouse including allowance for common property	$2,115	$2,465	$2,805
Unit	3 level walk-up unit complex, concrete structure, ground floor parking	$2,190	$2,350	$2,850
	3 level walk-up unit complex, concrete structure, basement parking	$2,145	$2,305	$2,805
	4-8 level unit complex including lift, concrete structure, ground floor parking	$2,500	$2,690	$3,260
	4-8 level unit complex including lift, concrete structure, basement parking	$2,445	$2,635	$3,205
	8 or more level unit complex including lift and basement car parking	$2,595	$2,945	$3,745
Commercial	1-4 level open plan offices including A/C and lifts, excluding fit out	$2,255	$2,515	$2,955
	4-8 level open plan offices including A/C and lifts, excluding fit out	$2,615	$2,805	$3,285
	8 levels and over including A/C and lifts, excluding fit out	$3,740	$3,950	$4,130
Industrial	High bay warehouse, standard configuration, concrete floor, metal clad	$1,075	$1,213	$1,309
	High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,319	$1,394	$1,553
Retail	Suburban shopping mall area including A/C	$2,817	$2,937	$3,287
	Supermarket including A/C, excluding fit out	$1,785	$1,905	$2,135
Hotel / motel	Single level boutique motel including A/C, guest facilities	$3,470	$3,970	$5,220
	Single level tavern/hotel including A/C, excluding loose item fit out	$2,895	$3,445	$4,145

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

Disclaimer | The information including the construction costs contained in Maverick is provided for general information only and on the understanding that neither BMT & ASSOC Pty Ltd, BMT Tax Depreciation Pty Ltd nor any of its officers or employees are providing professional advice on any particular matter or are liable for any error or omission in the information or any damage or loss suffered from any reliance on that information. Professional advice should be sought for your particular circumstances.

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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