MAVERICK™

Issue 47 2020
Biannual publication

1 FEATURED

Tax benefits support brand-new property

Survey reveals misconceptions around depreciation remain

BMT Tax Depreciation has prepared more than 600,000 depreciation schedules for property investors across the country, allowing us to access valuable insight into investors' sentiment, goals and preferences. We recently sent a survey to our network and received close to 1,000 responses. Of those surveyed, 42 per cent would choose a house as their next investment property type, 21 per cent favoured a unit or apartment, while 19 per cent showed interest in a townhouse. Only 9 per cent of investors would consider a house and land package, 6 per cent would consider commercial property and 3 per cent of investors were unsure about their next move.

We also found that 63 per cent of investors would purchase a second-hand property as their next investment, only 33 per cent would consider purchasing a brand-new property, while just 4 per cent showed interest in buying land.

Second-hand property is clearly the top pick for investors. This is unsurprising, given existing property is generally affordable, available and provides good opportunity for growth. However, the results show that many property investors may not understand or be aware of the taxation benefits associated with new property.

Continued >

Visit
bmtqs.com.au

INSIDE THIS ISSUE 47 | 2020

BMT Tax Depreciation
QUANTITY SURVEYORS

Depreciation improved on new property

Brand-new property often attracts an abundance of potential tenants seeking low maintenance, neat and tidy properties with urban convenience. As a result, the property is likely to provide consistent weekly rental returns and a low vacancy rate depending on the location and current market.

When building or buying a brand-new investment property, there are significant increased depreciation deductions on offer. The table following shows examples of the deductions available for a range of brand-new property.

New-build depreciation assessment

Property type	Purchase price	First year deductions[1]	Five year cumulative depreciation[1]	Average annual cash return[2]
3BR unit	$700,000	$14,406	$61,946	$4,584
3BR house	$700,000	$12,634	$55,590	$4,114
3BR townhouse	$700,000	$13,102	$52,408	$3,878

1 Using the diminishing value method. 2 First five years, calculated on a 37% tax rate. 2020_TA006

Investors in brand-new property are entitled to claim depreciation for the decline in value of the building's structure as well as any plant and equipment assets inside.

Depreciation and capital works deductions

Property type	Purchase price	First year deductions
Brand-new property		
1BR unit	$500,000	$10,085
2-year-old property		
1BR unit	$500,000	$5,105

2020_TA007

Depreciation legislation changes passed in November 2017 eliminated the claims available on previously used plant and equipment assets found in second-hand residential property. BMT's investor survey revealed that 50 per cent of property investors have little to no understanding of this legislation, which could explain why most investors are targeting second-hand properties.

Investors in brand-new property are not affected by the 2017 changes and can continue to depreciate all plant and equipment assets. However, if the property has been lived in before being sold or after acquiring, the new owner can no longer claim depreciation for these assets.

The increased cash flow from depreciation is one of the main benefits of investing in new property. Investors can also claim capital works depreciation for the entire cost of a building's structure over forty years, rather than just claiming any remaining years at the time of purchase.

Six-month rule for developers

It's important to note that there's a special rule for developers of new residential property: the six-month depreciation rule.

Current legislation states that property sold with plant and equipment assets that have been used can't be claimed by the new owner. However, developers who build a new residential property and cannot sell, have a six-month grace period to rent the property and then sell later without nullifying the depreciation claim for the incoming buyer. It's important the developer does not claim any depreciation deductions during the period in which the property is rented.

If the property is leased and then sold after the six-month period, the incoming buyer will not be eligible to claim depreciation for the plant and equipment assets. Although the assets are new, they will be classified as previously used by the tenants under the 2017 amended legislation.

Depreciation and capital works deductions

Property type	Purchase price	First year deductions
Brand-new property leased then sold after 4 months		
2BR unit	$600,000	$12,260
Brand-new property leased then sold after 8 months		
2BR unit	$600,000	$6,820

2020_TA008

For this reason, the developer's activities and timings are critical in determining a buyer's eligibility when claiming depreciation.

Invest with confidence

To help investors make informed decisions when building or buying brand-new or second-hand property, BMT provides free estimates of the likely depreciation deductions that will become available.

An investor who knows the depreciable value of a property before building or buying can calculate their exact after-tax cost or return, helping them to create a successful investment strategy.

Depreciation estimates are also beneficial for property developers. Depreciation estimates can be passed on to potential buyers, highlighting the buyer's increased future cash flow.

Depreciation and disaster: what can you claim in the event of fire damage?

This year Australia has suffered through some of the most destructive bushfires on record with a devastating impact on many Australian lives. Since the start of the 2019-20 fire season, a staggering 10 million hectares of land has burned across the country.

As countless pictures and stories of the horror of the bushfire season emerge, people across the country and around the world are contributing to the ongoing relief effort. Many homes, schools, investment properties and businesses have been destroyed, all of which will need to be rebuilt or repaired in the coming months and years.

BMT Tax Depreciation has experienced a substantial increase in requests for information about how an owner can deal with the loss of a rental property from a depreciation and taxation perspective. We've put some of the basics together to offer guidance and hopefully provide much needed relief in the form of tax deductions for destroyed items and the replacement assets.

Claiming depreciation after a bushfire

Depreciation is a deduction available to owners of income-producing properties for the wear and tear that occurs to a building and the plant and equipment assets within it. This deduction is available on both the structure of a building and its fixed assets like windows, doors, roof, footings, walls and tiles, along with any qualifying removable or mechanical plant and equipment assets like hot water systems, stoves and carpets. When part or all of a property is destroyed, the outcome from a taxation perspective can become complex.

In most scenarios an insurance payout will be issued. Usually, when considering the tax implication of the insurance proceeds, the structural element (claimed under division 43) and the plant and equipment assets (claimed under division 40) are treated separately. Insurance proceeds relating to the construction costs will reduce any leftover or un-deducted division 43 available on the original structure. Future division 43 capital works deductions will then need to be established considering a potential capital gain and any additional insurance proceeds remaining after these adjustments. Consideration will also need to be given to how proceeds were received, whether in cash or asset replacement, along with a few other minor factors under subsection 124B of the Income Tax Assessment Act 1997 (ITAA 97).

Similarly, with the individual plant and equipment assets there will be a balancing adjustment event whereby insurance proceeds will end up being either:

- **assessable income**, if the insurance proceeds are more than the un-deducted written-down value of the plant item
- **deductible**, if the proceeds are less than the written-down value of the plant item, for example if the assets are underinsured.

Because insurance proceeds are usually replacing an older asset with a new item, often they will be more than any un-deducted amounts, effectively eliminating any claim for the scrapped/destroyed asset.

Then, depending on the individual's scenario, there may be rollover relief available. According to the Income Tax Assessment Act 97 (ITAA 97), which covers involuntary disposal of assets, rollover relief is used when insurance payouts are higher than the un-deducted values. Normally these surplus proceeds are treated as assessable income (as mentioned above), however rollover relief allows the owner to offset the cost of replaced assets, effectively reducing its ongoing depreciable value rather than being assessed on the excess from the balancing adjustment.

Because of this, often, but not always, the owner will end up with a new asset that has a similar opening value as the written-down value of the destroyed asset.

Depending on each scenario, there may also be a portion of the insurance proceeds that relate to deductible repairs to a rental property. These are included in assessable income as an assessable recoupment and are claimed as a deductible expense.

In a situation where there is no insurance claim, owners of residential investment properties or commercial buildings can claim depreciation on the new building structure plus the plant and equipment assets starting from construction completion. They can also immediately claim any qualifying un-deducted values remaining for destroyed assets in the year they are destroyed. This process is usually referred to as scrapping and is often used when property owners are completing a renovation or addition.

When an investment property is destroyed, there are many variables that can affect the owner's taxation and depreciation outcome. To ensure all benefits and tax liabilities are accurately assessed during a natural disaster, it is essential that property investors speak with a trusted accountant and a specialist Quantity Surveyor.

BMT Tax Depreciation also has a helpful app, BMT Rep Cost, that provides an estimated replacement cost for most standard residential property types. This app can be accessed at **bmtqs.com.au/replacement-cost-calculator**.

Reduce the risk of financial stress with PropCalc

Despite historically low interest rates, many Australian property owners continue to face mortgage stress. With rising household debt, it's more important than ever to make informed decisions when purchasing property.

Investors need to assess their finances, determine how much they can afford to pay and accurately calculate all applicable holding costs.

The simple solution is PropCalc, a free online calculator revolutionising property research by using market analysis and automated and customisable data to show exactly how a purchase will affect an investor's financial position.

More than just a mortgage calculator, PropCalc allows users to personalise data such as purchase costs, potential property income, expenses and tax deductions. It considers the stamp duty, deposit amount, legal fees, insurance expenses, strata fees, pest and building inspection costs and deductions like depreciation to provide a realistic breakdown of the cost of owning a property. For investors, it also determines whether a property will be negatively or positively geared.

Live market data provides a real reflection of the property value to help investors make an educated decision about what and when to buy.

PropCalc is available online in MyBMT, a free comprehensive portal designed to help investors and their team manage their depreciation and property needs.

To join more than 120,000 people already registered and enjoying the benefits of PropCalc, visit **bmtqs.com.au/propcalc** today.

PropCalc
Powered by BMT Tax Depreciation

Improve cash flow with pooling

Claim deductions at an accelerated rate

If you're claiming depreciation for plant and equipment assets contained within a commercial or residential investment property, you should be aware of low-value pooling.

What is low-value pooling?

Low-value pooling allows investors to group qualifying assets in a pool that can be depreciated at an accelerated rate, rather than at each asset's individual rate based on an effective life. Assets in the low-value pool can be claimed at an increased rate of 18.75 per cent in the year of purchase, then 37.5 per cent every year following.

Investors can allocate two types of depreciable assets to a low-value pool, low-cost and low-value assets. A low-cost asset has an opening value of less than $1,000 in the year of acquisition.

A low-value asset refers to an item which has an opening value of $1,000 or greater in the year of acquisition, but the residual value after depreciation falls below the $1,000 threshold in a later tax year.

“Assets in the low-value pool can be claimed at an increased rate of 18.75 per cent in the year of purchase, then 37.5 per cent every year following.”

An example is a hot water system with a value of $1,100. In the second financial year of ownership, the asset will have depreciated to a value less than $1,000, which would make it eligible to be placed in the low-value pool.

Concessional depreciation treatment for small business

If you're an eligible small-to-medium business, you may choose to calculate deductions for your assets using simplified rules.

1. Small businesses, those with an aggregated turnover of less than $10 million, are eligible to claim an immediate write-off for assets costing less than $30,000 each, purchased and used or installed from 7.30pm on 2 April 2019 to 30 June 2020. The threshold was previously $25,000 for assets purchased from 29 January 2019 and $20,000 for assets purchased from 12 May 2015.

2. If the cost of an asset is the same as or more than the relevant instant asset write-off threshold, the asset can be placed into the small business pool. Assets within a small business pool are deducted at a rate of 15 per cent in the first year they're added and 30 per cent every year onwards.

3. A small business is also entitled to deduct the entire balance of the pool if the closing value is less than the immediate asset write-off threshold at the end of the financial year. For example, if the closing balance of the pool is $29,987 at the end of the financial year, the small business can claim the full amount.

4. Medium-sized businesses with a turnover between $10 million and $50 million are eligible to use the instant asset write-off for assets costing less than $30,000 each, if purchased and used or installed ready for use from 7.30pm on 2 April 2019 to 30 June 2020. As it stands currently, from 1 July 2020, the threshold will revert to $1,000 for small business entities, while medium-sized business will need to work out their asset's decline in value under the ordinary depreciation provisions.

These immediate write-off rules can be applied to qualifying plant and equipment assets acquired as part of a property purchase.

Given the varied rates and pooling structures, it's always best to consult with a specialist Quantity Surveyor to find out how much you can claim. They will take advantage of relevant low-value pools in current and future financial years to maximise a property owner's claim.

Depreciation powers up renewable energy investment

Tax benefits for hydro, wind and solar operations

As conversation surrounding climate change continues, the global community is becoming more aware of the environmental impacts of fossil fuels. As part of this discussion, several commentators have cited Australia's relatively untapped renewable energy industry and our potential to produce mass energy from sources like hydro, solar and wind.

While non-renewables generate the vast majority of Australia's power, the latest Australian Energy Statistics report, published by the Department of the Environment and Energy, indicates renewable fuels account for a larger portion of supply year-on-year, while non-renewables are slowly declining. According to Energy and Mining Minister Dan van Holst Pellekaan, the South Australian Government has even set an ambitious target of net 100 per cent renewables by 2030.

In the last few years, BMT Tax Depreciation has seen a considerable increase in the requests for depreciation schedules for renewable energy operations. With substantial growth predicted for the sector, it's more important than ever for renewable energy providers to remain competitive and manage their cash flow wisely. Depreciation is one aspect of taxation that can help boost cash flow and facilitate greater investment in future energy projects.

We've assessed a range of renewable energy operations and identified millions of dollars in depreciation. Let's look at some real results of how depreciation can benefit owners of renewable operations.

Depreciation for renewable energy operations			
Renewable type	**First year depreciation**	**Cumulative five year depreciation**	**Lifetime depreciation**
Hydropower - NSW	$10,324,260	$47,405,042	$212,177,690
Solar farm - SA	$11,841,499	$49,150,632	$144,182,094
Wind farm - WA	$15,980,093	$72,086,430	$315,817,690

* The depreciation deductions have been calculated using the diminishing value method. 2020_TA027

Hydropower is currently the largest source of renewable energy in Australia, accounting for around 40 per cent of the nation's renewable energy (Australian Renewable Energy Agency). The owner of a hydropower plant can claim depreciation for assets such as turbines, control and monitoring systems, emergency power supply items including batteries, and generator transformers.

In the table, you can see the owner is eligible to claim more than $10.3 million in depreciation in the first financial year. Over the lifetime of the property, the owner can claim more than $212 million in depreciation. The additional cash flow created through depreciation can be used to fund future projects, complete repairs and maintenance or to reinvest in the operation.

While hydropower is the largest renewable energy source, solar power accounts for just 0.3 per cent of our power generation (Australian Bureau of Statistics), despite Australia having some of the best conditions in the world for producing solar energy. Solar assets like photovoltaic electricity generating systems, power transformers, fire indicator panels and security systems all hold significant depreciable value.

The table shows the results of a facility BMT recently completed a depreciation schedule for in South Australia. The owner is entitled to claim more than $11.8 million in depreciation in the first full financial year. Over the lifetime of the property, their depreciation claims will amount to more than $144 million.

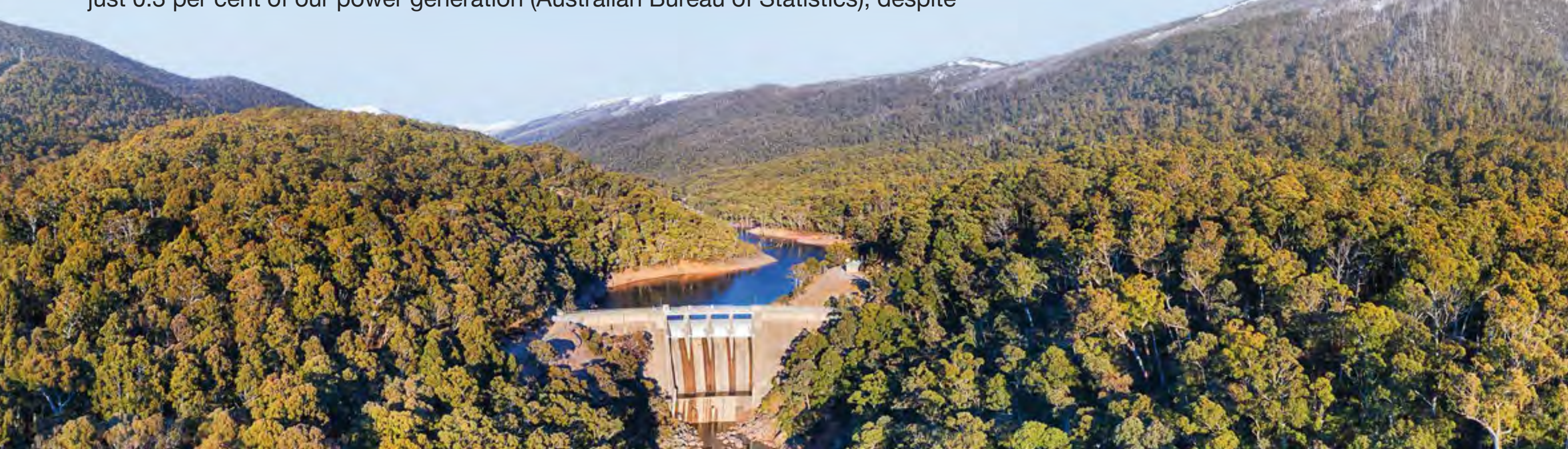
According to the Clean Energy Council, wind power is currently the cheapest source of large-scale renewable energy. In 2018, wind farms produced 33.5 per cent of Australia's clean energy and 7.1 per cent of the total electricity generated.

BMT's calculations show that wind farms hold considerable depreciable value for investors. The owner of a wind farm can claim depreciation for assets such as wind turbines, generator transformers and unit transformers.

Depreciation schedules for commercial properties require an expert to ensure deductions are correctly claimed according to their particular industry.

As both owners and tenants can claim depreciation, BMT Tax Depreciation Schedules can be split for multiple entities or tenants controlling different assets.

To find out more about our commercial services, visit **bmtqs.com.au** or call our team on **1300 268 628**.



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	3BR weatherboard project home, level block, single level, shelf design	$1,365	$1,528	$1,890
	3BR brick veneer project home, level block, single level, shelf design	$1,455	$1,620	$1,935
	3BR full brick project home, level block, single level, shelf design	$1,449	$1,615	$2,006
	4BR weatherboard home, level block, single level, unique design	$1,934	$2,047	$2,556
	4BR brick veneer home, level block, single level, unique design	$2,036	$2,134	$2,685
	4BR full brick home, level block, single level, unique design	$2,311	$2,640	$2,867
	3BR brick veneer project home, level block, two level, shelf design	$1,517	$1,676	$2,067
	3BR full brick project home, level block, two level, shelf design	$1,573	$1,769	$2,170
	4BR brick veneer home, level block, two level, unique design	$2,129	$2,406	$2,793
	4BR full brick home, level block, two level, unique design	$2,353	$2,702	$2,949
	Architecturally designed executive residence	$3,123	$3,997	$5,592
Townhouse	2BR single level brick veneer townhouse including allowance for common property	$2,140	$2,433	$2,742
	2BR 2 level brick veneer townhouse including allowance for common property	$2,197	$2,475	$2,876
	3BR single level brick veneer townhouse including allowance for common property	$2,120	$2,413	$2,711
	3BR 2 level brick veneer townhouse including allowance for common property	$2,176	$2,536	$2,886
Unit	3 level walk-up unit complex, concrete structure, ground floor parking	$2,253	$2,418	$2,933
	3 level walk-up unit complex, concrete structure, basement parking	$2,207	$2,372	$2,886
	4-8 level unit complex including lift, concrete structure, ground floor parking	$2,573	$2,768	$3,354
	4-8 level unit complex including lift, concrete structure, basement parking	$2,516	$2,711	$3,298
	8 or more level unit complex including lift and basement car parking	$2,670	$3,030	$3,853
Commercial	1-4 level open plan offices including A/C and lifts, excluding fit out	$2,320	$2,587	$3,040
	4-8 level open plan offices including A/C and lifts, excluding fit out	$2,690	$2,886	$3,880
	8 levels and over including A/C and lifts, excluding fit out	$3,848	$4,064	$4,249
Industrial	High bay warehouse, standard configuration, concrete floor, metal clad	$1,105	$1,248	$1,346
	High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,357	$1,434	$1,598
Retail	Suburban shopping mall area including A/C	$2,898	$3,022	$3,382
	Supermarket including A/C, excluding fit out	$1,836	$1,960	$2,197
Hotel / motel	Single level boutique motel including A/C, guest facilities	$3,570	$4,085	$5,371
	Single level tavern/hotel including A/C, excluding loose item fit out	$2,979	$3,545	$4,265

The above rates exclude 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.

Sydney
Level 33, 264 George Street
Sydney NSW 2000

Parramatta
Level 1, Suite F
110 George Street
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
Level 5, 15 Moore Street
Canberra ACT 2600

Adelaide
Level 5, 121 King William Street
Adelaide SA 5000

Hobart
Hobart Corporate Centre
Level 3, 85 Macquarie Street
Hobart TAS 7000

1300 268 628 | maverick@bmtqs.com.au | bmtqs.com.au