MAVERICK™

Issue 48 2020

Biannual publication

1 FEATURED

Claiming depreciation deductions on your own home

Uncover the tax benefits for new world property

Australian homeowners are becoming more creative with the ways they use their residences. A record number of workers are setting up home offices, live-in landlords are renting out rooms to earn extra cash, and short-term rentals like Airbnb have been on the rise. People who use their primary place of residence for these purposes can improve their cash flow by taking advantage of numerous tax benefits, including depreciation.

According to a survey conducted by Gartner HR, 88 per cent of organisations have either encouraged or required employees to work from home due to COVID-19. This new world way of working looks like it's here to stay, with recent research conducted by Venture Insights also finding that 67 per cent of Australians expect to work from home more after the pandemic ends.

The work-related portion of expenses like electricity and internet can be claimed while working from home. The ATO has introduced a temporary, simplified method of claiming expenses to cater for employees working from home due to COVID-19. This shortcut method is available from 1 March to 30 September 2020 and allows a deduction of 80 cents for each hour worked from home.

Continued >

Visit bmtqs.com.au

INSIDE THIS ISSUE 48 | 2020

BMT Tax Depreciation
QUANTITY SURVEYORS

Alternatively, if you have equipment or other assets that help you earn income from home, you can claim a deduction for some, or all of the costs associated to the assets. Either the fixed rate or actual cost method is ordinarily used by accountants to calculate deductions for office equipment and other expenses.

Small business owners commonly run their operations from home, especially in the early stages. According to the Australian Small Business and Family Enterprise Ombudsman, small businesses account for 98.45 per cent of all Australian businesses.

A portion of general running expenses like electricity, phone bills, internet, heating and mortgage interest repayments can be claimed. A tax depreciation schedule allows home-based entrepreneurs to claim a business-related portion of depreciation deductions for their home. Depreciation can be claimed on both the structural component of the building (capital works deductions) and for the easily removable fixtures and fittings (plant and equipment depreciation) used for business operations.

The following example demonstrates some of the deductions that could be available. In this case, the business owner has a dedicated home office space used for their primary business operations.

Home office depreciation

	Original value	First year deductions	Cumulative five year deductions
Plant and equipment (Division 40)			
Laptop	$4,750	$4,750	$4,750
Monitors	$720	$135	$631
Desk	$975	$183	$854
Office chair	$680	$128	$596
Sit-stand desk attachment	$550	$103	$482
Capital works deductions (Division 43)	$24,800	$620	$3,100
Total		**$5,919**	**$10,413**

The depreciation deductions have been calculated using the diminishing value method. 2020_TA154

Claiming depreciation on this income-producing portion produces a tax deduction of $5,919 in the first year alone. This will increase to $10,413 over the cumulative five years. The same plant and equipment assets may also qualify for the instant asset write-off that's covered later in this Maverick 48 publication. The boost depreciation provides to the business's cash flow is likely to help it grow.

Tax deductions can also be claimed on a pro-rata basis when a room is rented out in a primary place of residence, either permanently or as short-term accommodation. The pro-rata calculation is based on the percentage of the house that's used to produce income, and the period of the time it was rented out.

Below is a short-term accommodation scenario of depreciation deductions from the income-producing portion of a home. The owner purchased the home brand new and has converted the second floor into an area including a bedroom, kitchenette and bathroom.

Short-term accommodation property depreciation

	First year deductions	Cumulative 5 year deductions
Plant and equipment	$2,706	$8,308
Capital works	$3,250	$16,250
Total	**$5,956**	**$24,558**

The depreciation deductions have been calculated using the diminishing value method. 2020_TA156

Claiming depreciation produces a first year tax deduction of $5,956. This will increase to $24,558 over the cumulative five years. The significant improvement to their cash flow allows the owner to pay down debt or reinvest and grow their portfolio.

Homeowners need to consider the Capital Gains Tax (CGT) implications of using part of their home to produce income. While the main residence exemption applies to their home, CGT must still be considered for the income-producing portion. The apportioned CGT amount may also decrease if the 50 per cent discount is applied.

To ensure all benefits are accurately assessed, property investors should speak with a trusted accountant and a specialist quantity surveyor. To learn more about depreciation, contact BMT on **1300 268 628**.

Maximise cash flow with immediate deductions

Immediate deductions available for non-business residential assets

Residential property investors that claim the most depreciation do so by using a specialist quantity surveyor. A specialist will use every appropriate rule available to increase deductions and improve the owner's cash return.

The immediate deduction is one of the most utilised depreciation rules that is often misused due to its complexity. It allows investors to claim 100 per cent of an asset costing less than $300 in the year of purchase.

The complexity of the immediate deduction

This immediate deduction can save investors hundreds, if not thousands, of dollars. However, there are four important rules that qualify an asset for the extra claim.

1. It must be a stand-alone asset

Individual assets that are part of a set aren't eligible for the immediate deduction if the total set cost exceeds $300.

A quantity surveyor will determine whether assets are a set on a case-by-case basis. The following example demonstrates how set determination works in practice.

Connor owns a fully furnished rental property and purchased a new single bed and mattress for one of the bedrooms. He purchased the bedframe for $150 and the mattress for $250. While they are two individual items, they are considered as part of a set and are designed to be used together. Connor can't claim the immediate deduction as the set total exceeds $300.

2. It must not be one of several identical or substantially identical items

The total cost of an asset and any other identical or substantially identical assets that an investor purchases in an income year must not exceed $300.

A specialist quantity surveyor considers many factors when determining if an asset is substantially identical to others including the purpose, colour, shape, function, brand and design. The following example demonstrates how this works in practice.

Jane owns a student share house that consists of five furnished bedrooms. During the 2019/20 financial year, Jane purchased brand-new student desks for all five bedrooms. Each desk was different in colour but of the same design and purchased from the same provider.

The desks cost $200 each. However, Jane can't claim the immediate deduction because they are substantially identical, and the total cost exceeds $300.

3. It must cost $300 or less

The cut off for residential property investors is $300 or less. It is important to know where an asset is jointly owned by several individuals, some members can claim the immediate deduction based on their interest. The following demonstrates how this works.

Mel and John own an investment property in the proportions of 70 and 30 per cent. Based on their respective interests, they contribute $490 and $210 to purchase a new cooktop. Only John can claim an immediate deduction because his interest in the asset doesn't exceed $300.

4. It is used mainly to produce non-business assessable income

To claim the immediate deduction, an investor must use the eligible asset more than 50 per cent of the time for producing non-business assessable income.

Claiming depreciation on assets ineligible for the immediate deduction

If a residential investor can't claim the immediate deduction, the deduction will be determined using the general rules of depreciation. Alternatively, an investor may choose to allocate the asset to a low-value pool.

Assets with a value less than $1,000 can be deducted using a low-value pool, allowing the asset to depreciate at an accelerated rate.

This can also apply if an asset was eligible for an immediate deduction in the purchase year but, for a variety of reasons, was not claimed.

In this instance, an asset that would've qualified for the immediate deduction in the purchase year can instead be claimed using the low-value pool or effective life rates.

Uncover thousands with the BMT Tax Depreciation Calculator

A surprising result was uncovered in the 2019 BMT Investor Survey, which is that 54 per cent of investors and property owners hold little to zero understanding of property depreciation. Property depreciation is the highest non-cash deduction available for investors, yet minimal understanding means many don't take full advantage of it. Obtaining an estimate of likely depreciation deductions can help investors uncover thousands in cash flow.

Estimating depreciation deductions is easy with the complimentary BMT Tax Depreciation Calculator. Powered by BMT's comprehensive data collected from over 700,000 tax depreciation schedules, this tool estimates the likely depreciation deductions claimable for a variety of property types.

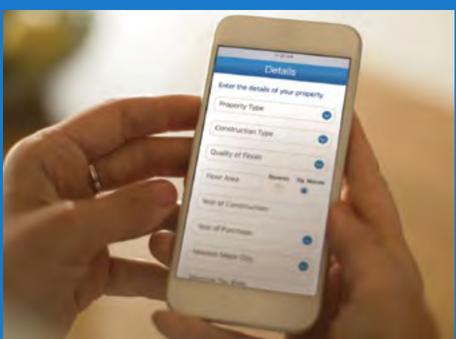
This information will help a property owner evaluate the impact of claiming depreciation on their cash flow and decide whether to organise a tax depreciation schedule.

Only basic details of the property are required to generate an estimate. Some of the details required include the property type, year of construction and purchase, whether it's new or second-hand, the closest major city and the owner's marginal tax rate.

Once this information is entered, the tool instantly estimates a range of the likely first-year depreciation deductions.

A five-year overview is provided to show the bigger picture. This reveals the minimum and maximum yearly depreciation deductions estimated for both plant and equipment and capital works deductions. The tool demonstrates the significant difference depreciation can make to tax payable. This is shown through a five-year projection of reduced tax payable based on the owner's marginal tax rate.

To start using the BMT Tax Depreciation Calculator, visit **bmtqs.com.au/tax-depreciation-calculator** to use the tool online or download the app.



Depreciation still the second highest deduction for property investors

Depreciation remains the second highest deduction for property investors after interest repayments, according to the Australian Taxation Office (ATO).

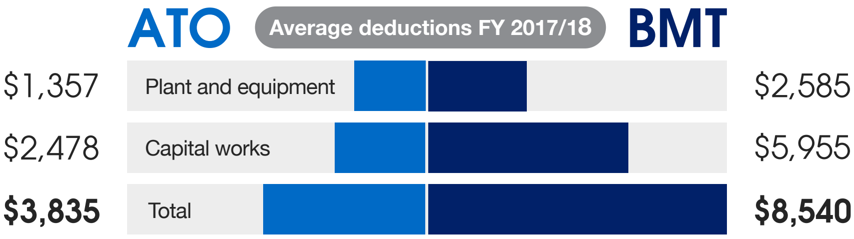
ATO statistics recently released from financial year (FY) 2017/18 reveal the average tax deductions claimed for residential rental properties across the country. Costly interest payments continued to be the highest deduction, coming to an average of almost $9,500 for the financial year. Depreciation held second place position in the ranks of total deductions claimed by investors.

Since property depreciation is a non-cash deduction, this makes a significant improvement to an investor's cash flow because the deduction can be claimed without incurring any additional costs. Meanwhile, interest payments are costly out-of-pocket expenses.

The ATO data revealed that the average plant and equipment claim was $1,357, only a slight decrease from the total of $1,362 reported in the previous financial year. This is promising news, considering the significant legislation changes to plant and equipment depreciation introduced in 2017.

Capital works deductions continued to increase in FY 2017/18. The ATO uncovered an average capital works claim of $2,478. This is slightly more than the previous year's $2,385.

With both plant and equipment and capital works deductions considered, the total average depreciation deduction found by the ATO came to $3,835.



BMT Tax Depreciation average deductions

We thought we would take a look at the average deductions achieved by BMT Tax Depreciation for residential property owners.

Overall, BMT found a total average depreciation deduction of $8,540 in FY 2017/18. In this financial year, average capital works claim found by BMT was $5,955, and the average plant and equipment claim was $2,585. More recently, BMT found an average depreciation deduction of $8,846 in FY 2018/19 for our clients' residential properties.

There are a multitude of ways a specialist will maximise depreciation claims. For example, correct application of legislation, and correctly and accurately valuing assets.

> "BMT found an average depreciation deduction of $8,846 in FY 2018/19 for our clients' residential properties"

A detailed site inspection completed by a specialist site inspector is one of the most important steps.

During a site inspection, a specialist BMT site inspector measures the building, notes down the construction type and method, workmanship and materials used. They will also identify any hidden renovations completed by previous owners and note down all these hard to find plant and equipment assets.

Both the National Tax and Accountants' Association and Australian Institute of Quantity Surveyors support the requirement of site inspections and note the possible risks of missed deductions or errors when a physical site inspection isn't performed. Missed deductions or errors often result in costly adjustments for investors.

To start maximising depreciation deductions, contact BMT on **1300 268 628**.

Higher deductions available for Australian businesses

Businesses today are required to adapt to a fast-paced and diverse environment to remain competitive. From market stability, to technological advancements and consumer preferences and trends, holding a customer-centric approach is more important than ever before.

To remain sustainable, businesses must be flexible and are consistently required to upgrade their operations and facilities. Updating equipment and renovating can prove to be a costly exercise. However, the application of current instant asset write-off rules can help many small to medium-sized businesses by subsidising expenditure.

The Federal Government has announced an extension of the instant asset write-off threshold increase until December 2020.

It's estimated that the current multi-million dollar arrangement will provide lucrative benefits to more than 3.5 million Australian businesses. The instant asset write-off eligibility requirements and thresholds have changed over the last few years. Here is an overview of recent changes since 2019.

Instant asset write-off thresholds

Eligible business aggregated turnover	Date range	Threshold
Less than $500 million	12 March 2020 – 31 December 2020*	$150,000
Less than $50 million	2 April 2019 – 11 March 2020	$30,000
Less than $10 million	29 January 2019 – 2 April 2019	$25,000
Less than $10 million	1 July 2016 – 28 January 2019	$20,000

*For eligible businesses with an aggregated turnover from $10 million to less than $500 million, the $150,000 threshold applies for assets purchased from 7.30pm (AEDT) on 2 April 2019 but not first used or installed ready for use until 12 March 2020 to 31 December 2020 2020_TA151

Both second-hand and new plant and equipment assets are eligible and there's no limit to the number of assets that a business can claim under the instant asset write-off rules each financial year. As long as both the asset and the business are eligible, the owner can deduct 100 per cent of the asset's cost.

The instant asset write-off is very effective when a business purchases a new property with pre-existing plant and equipment assets. For example, if a business purchases an industrial warehouse with an air-conditioner worth $100,000 and an industrial gantry crane worth $120,000, they can instantly write off each asset's value this financial year.

Businesses must understand how the increased instant asset write-off threshold affects assets already placed in the general small business pool. The business can deduct the balance of the small business pool at the end of the income year. This is possible if the balance of the total pool, before applying the depreciation deductions, is less than the current instant asset write-off threshold.

The Backing Business Investment incentive

Many small to medium-sized businesses that can't claim the instant asset write-off can still take advantage of accelerated depreciation under the Backing Business Investment (BBI) incentive.

Available until 30 June 2021, the BBI encourages business investment and overall economic activity through accelerating depreciation deductions. Any new plant and equipment asset purchased and installed on or after 12 March 2020 and until 30 June 2021 will be eligible for the incentive. With no asset value threshold limit set for the BBI incentive, it allows many businesses to claim back more sooner.

The size of the business also determines eligibility and how the depreciation is accelerated.

Backing Business Investment eligibility

Business type	How depreciation is accelerated
Small business with aggregated turnover up to $10 million and using simplified depreciation rules	57.5 per cent of the asset's value is deducted in year of purchase. Depreciated under general small business pool in following years
Business with aggregated turnover up to $500 million and not using simplified depreciation rules	50 per cent of the asset's value deducted in year of purchase, in conjunction with standard rate of depreciation on the remaining value

2020_TA152

For example, if a medium-sized construction business purchased a mounted concrete pump valued at $900,000, this can be depreciated using the BBI incentive. This would result in a total deduction of $585,000 in the first financial year alone.

The BMT commercial tax depreciation schedule takes into account all applicable accelerated rates and the current instant asset write-off that the owning entity can use. Maximise claims and minimise risk with BMT Tax Depreciation, find out more at **bmtqs.com.au** or call BMT 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	$1,385	$1,551	$1,918
	3BR brick veneer project home, level block, single level, shelf design	$1,477	$1,644	$1,964
	3BR full brick project home, level block, single level, shelf design	$1,471	$1,639	$2,036
	4BR weatherboard home, level block, single level, unique design	$1,963	$2,078	$2,594
	4BR brick veneer home, level block, single level, unique design	$2,067	$2,166	$2,725
	4BR full brick home, level block, single level, unique design	$2,346	$2,680	$2,910
	3BR brick veneer project home, level block, two level, shelf design	$1,540	$1,701	$2,098
	3BR full brick project home, level block, two level, shelf design	$1,597	$1,796	$2,203
	4BR brick veneer home, level block, two level, unique design	$2,161	$2,442	$2,835
	4BR full brick home, level block, two level, unique design	$2,388	$2,743	$2,993
	Architecturally designed executive residence	$3,170	$4,057	$5,676
Townhouse	2BR single level brick veneer townhouse including allowance for common property	$2,172	$2,469	$2,783
	2BR 2 level brick veneer townhouse including allowance for common property	$2,230	$2,512	$2,919
	3BR single level brick veneer townhouse including allowance for common property	$2,152	$2,449	$2,752
	3BR 2 level brick veneer townhouse including allowance for common property	$2,209	$2,574	$2,929
Unit	3 level walk-up unit complex, concrete structure, ground floor parking	$2,287	$2,454	$2,977
	3 level walk-up unit complex, concrete structure, basement parking	$2,240	$2,408	$2,929
	4-8 level unit complex including lift, concrete structure, ground floor parking	$2,612	$2,810	$3,404
	4-8 level unit complex including lift, concrete structure, basement parking	$2,554	$2,752	$3,347
	8 or more level unit complex including lift and basement car parking	$2,710	$3,075	$3,911
Commercial	1-4 level open plan offices including A/C and lifts, excluding fit out	$2,355	$2,626	$3,086
	4-8 level open plan offices including A/C and lifts, excluding fit out	$2,730	$2,929	$3,938
	8 levels and over including A/C and lifts, excluding fit out	$3,906	$4,125	$4,313
Industrial	High bay warehouse, standard configuration, concrete floor, metal clad	$1,122	$1,267	$1,366
	High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,377	$1,456	$1,622
Retail	Suburban shopping mall area including A/C	$2,941	$3,067	$3,433
	Supermarket including A/C, excluding fit out	$1,864	$1,989	$2,230
Hotel / motel	Single level boutique motel including A/C, guest facilities	$3,624	$4,146	$5,452
	Single level tavern/hotel including A/C, excluding loose item fit out	$3,024	$3,598	$4,329

The above rates exclude 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.

Sydney
Level 33, 264 George Street
Sydney NSW 2000

Parramatta
Level 15, Deloitte Building
60 Station 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