MAVERICK™

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1 FEATURED

Gain more deductions through conscious investing

Investors go green for more cash

After last year's UN Climate Change Conference (COP26) summit and discussions surrounding the future of Australian coal, an even greater spotlight has highlighted the need to reduce Australia's greenhouse gas emissions.

According to research from the CSIRO and Bureau of Meteorology, Australia's climate has warmed by 1.44 ± 0.24 °C on average since national records began in 1910. This has been a factor in the increase in frequency of heat waves, dry spells and bushfires. The same study also reported that oceans surrounding Australia are acidifying and have warmed by around 1 °C since 1910.

These changes, coupled with recent increases in natural disasters in Australia, have influenced governments and individuals to implement changes to reduce carbon footprints.

From May 2019, all new Australian homes, home renovations, alterations and additions are required to comply with the 6-star standard in the National Construction Code (NCC).

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BMT Tax Depreciation
QUANTITY SURVEYORS

The NCC sets the minimum requirements in relation to structure, fire safety, accessibility, health and amenity, and sustainability. It is published and maintained by the Australian Building Codes Board on behalf of, and in collaboration with, the Australian Government and each State and Territory Government.

The inclusion of energy efficiency requirements in the NCC is part of a comprehensive strategy to reduce greenhouse gas emissions. The new requirements mark a shift in how energy efficiency is considered as part of the process of design and construction.

Research shows that almost 8 million Australian homes were built before these energy efficiency measures were created. Meanwhile, homes continue to account for 18 per cent of Australia's greenhouse emissions, according to the COAG Energy Council.

The most recent data indicates that approximately 32 per cent of households in Australia are renters. Therefore, property investors can make a huge impact by making energy-efficient decisions within their property purchasing and improvement strategies.

Given that new properties must now comply with environmental standards, they are generally the most energy efficient. However, owners of older properties who are thinking about completing a renovation or making an addition to the property can make their investment more energy efficient. These greener decisions will in turn contribute to some lucrative tax deductions.

Installing smart meters, solar hot water systems, LED lighting and appliances with high star ratings are just some ways to improve energy efficiency.

Heating and cooling can make an enormous difference. On average in Australia, 40 per cent of a household's power consumption goes towards heating and cooling costs to combat our unforgiving climate.

When making improvements, choosing the right asset can drastically reduce the amount of power used, for example, a 4+ star reverse-cycle air-conditioner uses 45 per cent less energy than an efficient gas heater.

It's just as important to remember the outdoors when we are talking about houses. Roofing designs that promote insulation within a home can make a huge impact. A University of NSW study has found that eliminating dark-coloured roofing in Sydney will lower the city's summer ambient temperatures (also known as the surrounding air temperature) by up to 2.4 degrees on average.

The same study showed that switching to cooler roofing alternatives like adding a coat of white paint, could decrease indoor temperatures of uninsulated homes in Western Sydney by an average of 4 degrees, and 10 degrees during heatwaves.

Of course, when property improvements are needed, there is a cost. However, there are also depreciation deductions which can help reap a significant portion of the costs back at tax time.

The following table demonstrates some of the first-year and total depreciation deductions available for assets which improve the energy efficiency of a property.

Energy efficiency depreciation deductions

Asset	First full year	Total
Solar panels	$536	$5,365
Rainwater tanks – polyethylene	$291	$2,180
LED downlights	$744	$1,860
Solar hot water system	$572	$4,290
Insulation	$191	$7,650
Cool roofing*	$394	$15,750
Total	**$2,637**	**$37,095**

* Cool roofing takes into account roof design, exterior colour and materials used.

Choosing greener options will pay off in the long run for property investors who renovate. Not only is it better for the environment, but tenants will reap the benefit of reduced energy costs. In turn, this will help property investors attract and keep quality tenants and potentially increase returns. A significant portion of the costs can be claimed back as depreciation at tax time.

Investors looking to purchase a property or make environmentally conscious improvements to their existing investment can call BMT for an obligation-free depreciation estimate on **1300 728 726.**

Site inspections essential for majority of rentals

Like many Australian businesses, depreciation specialists have faced a variety of challenges in recent years.

One challenge that continued to resurface during the pandemic is the necessity of a site inspection for the purpose of preparing a tax depreciation schedule. This was especially tough during times of restrictions, lockdowns and social distancing measures.

The reality is that site inspections are important for claiming depreciation compliantly and to its full potential, whether there's a pandemic or not.

The reasons for this are as follows:

1. Renovations, including those completed by previous owners, can be identified through site inspections, particularly those missed by the untrained eye like house restumping or older renovations completed many years ago. A physical site inspection is necessary to substantiate the depreciable cost of the type and size of renovation.
2. A physical inspection will ensure depreciation claims are 100 per cent compliant. In the event of an Australian Taxation Office audit, evidence of claims is often required. A site inspection will help to substantiate depreciation claims. Photos taken by a landlord, property manager or tenant simply will not suffice.
3. A site inspection will identify every depreciation dollar to be claimed. A specialist inspector will make note of every part of the property, take photos and get measurements to ensure every single structure and asset is claimed to its full potential.

> "A recent analysis of BMT data revealed that, of the 100,000+ residential tax depreciation schedules prepared in the last three years, 66 per cent of second-hand properties had experienced some form of historical or recent addition or renovation."

Some people are mistaken in thinking that site inspections aren't necessary. There are two common misunderstandings causing this. The first is that because plant and equipment deductions are unavailable on previously used plant assets, they wrongly assume that this rules out all other depreciable assets. The second is the misconception that, if the property was built before 1987, when capital works deductions start to qualify, then the owner won't get any deductions.

The reality is that site inspections are required more often than not. As data shows, more than two thirds of properties have had some form of renovation, which are verified through physical site inspections. These renovations can include installing assets that aren't impacted by 2017 legislation changes or are structural in nature and produce more capital works deductions.

For example, if an investor purchased a property in 2022 that was built in the 1960s, it would be impacted by both the 2017 legislation changes and the capital works cut-off date of 1987. But if the previous owner completed a bathroom and kitchen renovation in 2000, the new owner could claim capital works deductions on these until 2040. If the new owner installed new window coverings and carpets, they could claim plant and equipment deductions on these assets, too.

In the vast majority of properties there are deductions available, and a site inspection is needed to claim them correctly.

In financial year 2020-21, BMT achieved an average first full-year depreciation deduction of almost $9,000 for residential clients. This is over $4,600 more than the latest Australian Taxation Office average reported for capital works and plant and equipment deductions.

BMT takes great care in ensuring every schedule is prepared to the highest standard and is ATO compliant. Every schedule is backed by the BMT Guarantee, stating that if BMT can't double their fee in the first full financial year's deductions, there is no charge for their service.

Data shows that houses reign supreme throughout chaos

Events in the property market last year were interesting, to say the least. The country saw huge property price increases, tighter lending restrictions and migration out of metropolitan areas.

At BMT we love data and often look at key metrics and patterns, especially during challenging times. We analysed tax depreciation schedules prepared in 2021, to identify what the typical residential investment property looked like during this chaotic year. That is, the most common residential investment property type, where it is most often found, and how much investors have paid for it.

Investment property type

Based on the number of tax depreciation schedules BMT completed, houses remained the most popular investment property type during the second year of the pandemic. From 1 January 2021 to 31 December 2021, houses accounted for 55.1 per cent of our schedules and units 44.9 per cent. This is an increase of 3.8 per cent since calendar year 2019, the year prior to the pandemic.

House vs unit tax depreciation schedules ordered

Property type	2019	2020	2021
House	51.3%	52.9%	55.1%
Units	48.7%	47.1%	44.9%

Factors like reduced student immigration to Australia, a series of structural defects found in high rise residential projects, and the fear of being locked down during the pandemic in an apartment, could all be contributing to a shift of demand to houses, which we are now seeing flow through to property investors.

Investment property location

The 'internal migration' trend continued in 2021, with more people seeming to move from cities to regional areas. The number of depreciation schedules ordered for metropolitan regions has fallen by 5.7 per cent since 2019. Will this trend continue in 2022? We'll have to wait and see.

Metropolitan vs regional tax depreciation schedules ordered

	2019	2020	2021
Metro	73.1%	69.1%	67.4%
Regional	26.9%	30.9%	32.6%

How much investors have paid

At the end of December 2021, Australian dwelling values across all properties were 22.1% higher than in December 2020. Australia's inflated housing market is now valued at more than $9 trillion, a record high after surging home prices through the pandemic lifted the value of residential property by $1 trillion in the last six months of the year alone.

The tax depreciation schedules BMT prepared provide insight on the average purchase price of investment properties. The following table highlights the difference between average dwelling price across the country comparing BMT and ABS data for all dwellings over the same period (2021 year end).

Average investment property vs Australian average dwelling price

	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Total
Investment Property ($'000)	$514.0	$768.7	$445.1	$523.3	$438.0	$404.0	$597.6	$502.3	$524.2
Australian Average ($'000)	$949.7	$1118.2	$479.9	$681.0	$576.8	$616.5	$920.8	$597.1	$863.7

BMT Tax Depreciation can provide schedules on all types of properties, and of all sizes. Investors can contact the team on **1300 268 628.**

PropCalc: Investment property cash flow calculator

The first step towards buying a rental property is to understand the cash flow. PropCalc, BMT's investment property cash flow calculator will help to work out the real cost of ownership.

PropCalc gives a realistic impression of cash flow, using property-specific data to calculate the difference between rental income and expenses. It also estimates the claimable tax depreciation and the likely end tax outcome.

Simply enter the address of the property and PropCalc will pre-fill with reliable data which can then be adjusted for various scenarios.

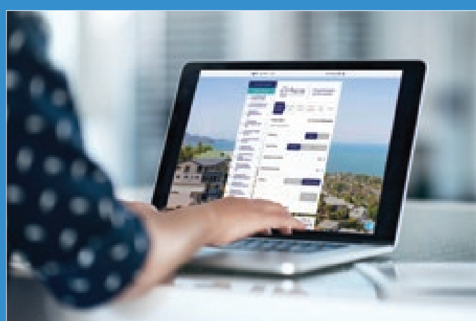
When working out expenses, PropCalc factors in the total amount required for finance, and ongoing costs including maintenance, rates, insurance and much more. PropCalc can also model the impact of interest rate changes on cash flow.

The tool also determines the property's gearing level based on the investor's financial situation, helping to choose the appropriate property for any investment strategy.

PropCalc also helps with property research. It features live market data to show how a suburb compares to others in terms of rents and capital growth. It even displays census data, nearby planning applications and properties for sale and rent to give a true picture of the market.

All of this can be saved in a downloadable report and accessed at any time. PropCalc is available as an app so that properties can be compared at property inspections.

To join more than 40,000 people already enjoying the benefits of PropCalc, download the app on Google Play or the App Store, or visit **bmtqs.com.au/propcalc** today.



PropCalc
Powered by BMT Tax Depreciation

Depreciation supports rise in warehouse investment

Warehouse space has seen exponential growth in recent years. Research suggests that this growth won't be slowing down any time soon, with CBRE predicting e-commerce will drive requirements for an additional 350,000 square metres of new warehouse space each year.

There are several drivers for the demand and growth of warehouse space. COVID-19 has supercharged the 'Amazon effect' and consumer preferences are moving towards online shopping and away from physical storefronts.

As the warehouse sector's volume is pushed to new heights and vacancy rates reach record lows, BMT wants to remind both industrial space investors and the businesses that operate from them to ensure they are claiming every tax deduction.

Warehouse depreciation is the natural wear and tear of the property and its fit-out. This deduction can reduce taxable income without spending any cash, resulting in less tax to pay.

The sheer size of the structure of some warehouses means that there are huge capital works deductions available. Depending on the warehouse type, the capital works deduction fixed rate can change.

For example, currently manufacturing industries' (including warehouses used for manufacturing) capital works deductions are calculated at a fixed rate of 4 per cent of the historical construction cost. Storage and distribution warehouses' capital works deductions are depreciated at a rate of 2.5 per cent.

The other side of warehouse depreciation is the fit-out. This is usually owned and claimed by the party that is using the warehouse for their business operations (i.e. the tenant or owner-occupier). The owner that doesn't operate from the property can also claim depreciation on the fit-out assets they own. These assets depreciate at a rate based on their effective life as set by the Australian Taxation Office.

The warehouse boom has been reflected in the depreciation landscape, too. A comparison of before and during COVID-19 revealed that there has been a 12 per cent rise in BMT Tax Depreciation Schedules ordered for warehouses between FY 2018/19 and FY 2020/21.

Depreciation case study: Typical Australian distribution warehouse

'Business A' is classed as a medium-sized business entity in Australia. In the 2020/21 financial year, Business A purchased a new warehouse space from which to run its distribution operations.

Given that Business A is both the owner and occupier of the property, it can claim depreciation deductions on both the fit-out and the property's structure. Some of the fit-out assets include air conditioning units, light fittings and office furniture.

The table on the right demonstrates how much depreciation Business A can claim in full. These deductions stack up to over $2.7 million and provide a healthy boost to Business A's cash flow.

Tax depreciation schedules are key to claiming the maximum depreciation deductions. A BMT Tax Depreciation Schedule applies all industry-specific legislation to ensure commercial depreciation deductions are claimed to their full potential and compliantly.

BMT also applies current business incentives including the backing business investment and temporary expensing depending on the business size, to ensure every cent is claimed.

BMT Tax Depreciation has optimised its commercial process to ensure both owners and tenants claim the most deductions possible. To learn more about commercial depreciation of warehouse space, call BMT today on 1300 268 628.

Business A warehouse depreciation

Plant and equipment assets	
Packaged air conditioning units	$73,660
Split system air conditioning assets	$6,954
Automatic garage door	$8,576
Automatic gate - motors and controls	$6,142
Bathroom accessories	$4,048
Carpets	$31,959
Ceiling fans	$1,040
Computers	$53,312
Door closers	$2,833
Exhaust fans	$1,835
Fire extinguishers	$3,424
Fire hoses and nozzles	$11,126
Floor coverings	$5,461
Hot water installations	$3,602
Light fittings & shades	$53,712
Freestanding office chairs	$4,580
Freestanding office desks	$9,230
Partitions	$16,504
Boardroom tables	$4,190
Telephone systems	$13,200
Warehouse and distribution centre racks	$45,000
Window blinds	$3,600
Plant and equipment total	**$363,988**
Capital works	**$2,379,024**
Total plant and equipment & capital works	**$2,743,012**

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	$1,460	$1,635	$2,022
House	3BR brick veneer project home, level block, single level, shelf design	$1,557	$1,733	$2,070
House	3BR full brick project home, level block, single level, shelf design	$1,550	$1,728	$2,146
House	4BR weatherboard home, level block, single level, unique design	$2,069	$2,190	$2,734
House	4BR brick veneer home, level block, single level, unique design	$2,178	$2,283	$2,872
House	4BR full brick home, level block, single level, unique design	$2,472	$2,824	$3,067
House	3BR brick veneer project home, level block, two level, shelf design	$1,623	$1,793	$2,211
House	3BR full brick project home, level block, two level, shelf design	$1,683	$1,893	$2,322
House	4BR brick veneer home, level block, two level, unique design	$2,278	$2,574	$2,988
House	4BR full brick home, level block, two level, unique design	$2,517	$2,891	$3,155
House	Architecturally designed executive residence	$3,341	$4,276	$5,982
Townhouse	2BR single level brick veneer townhouse including allowance for common property	$2,289	$2,603	$2,933
Townhouse	2BR 2 level brick veneer townhouse including allowance for common property	$2,350	$2,648	$3,077
Townhouse	3BR single level brick veneer townhouse including allowance for common property	$2,268	$2,581	$2,900
Townhouse	3BR 2 level brick veneer townhouse including allowance for common property	$2,328	$2,713	$3,088
Units	3 level walk-up unit complex, concrete structure, ground floor parking	$2,410	$2,587	$3,138
Units	3 level walk-up unit complex, concrete structure, basement parking	$2,361	$2,538	$3,088
Units	4-8 level unit complex, including lift, concrete structure, ground floor parking	$2,753	$2,961	$3,588
Units	4-8 level unit complex, including lift, concrete structure, basement parking	$2,692	$2,900	$3,528
Units	8 or more level unit complex, including lift and basement car parking	$2,856	$3,242	$4,122
Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	$2,482	$2,768	$3,252
Commercial	4-8 level open plan offices, including A/C & lifts, excluding fit out	$2,878	$3,088	$4,151
Commercial	8 levels and over, including A/C & lifts, excluding fit out	$4,117	$4,348	$4,546
Industrial	High Bay Warehouse, standard configuration, concrete floor, metal clad	$1,182	$1,335	$1,440
Industrial	High Bay Warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,452	$1,534	$1,710
Retail	Suburban shopping mall area including A/C	$3,100	$3,233	$3,618
Retail	Supermarket, including A/C, excluding fit out	$1,964	$2,097	$2,350
Hotels/motels	Single level boutique motel including A/C, guest facilities	$3,819	$4,370	$5,746
Hotels/motels	Single level tavern/hotel including A/C, excluding loose item fit out	$3,187	$3,793	$4,563

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.

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