

1 FEATURED

Unlock mortgage relief and tax benefits by transitioning from owner-occupier to landlord

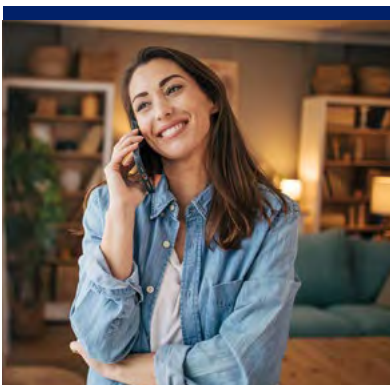
The Australian property market is once again recalibrating. While the growth in housing values has moderated and more properties are coming onto the market, the rental sector remains a standout performer. This vibrant rental market offers exciting potential for property owners to rethink and diversify their investment strategies.

One emerging trend we've observed at BMT is owner-occupiers transforming their homes into rental properties; stepping into the role of landlords. Last year close to 27 per cent of depreciation schedules completed, transitioned from being owner-occupied to income-producing, a 4 per cent increase from the previous year. This proactive approach not only unlocks the income potential of these properties but also allows owners to retain valuable assets.

Close to a third of Australians are currently under mortgage stress and for many, generating rental income provides a smart way to ease mortgage repayments, while retaining their properties and taking advantage of capital growth.

This is a testament to the adaptability and forward-thinking mindset of Australian property owners and investors.

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BMT Tax Depreciation
QUANTITY SURVEYORS

An owner-occupier with a property worth \$920,000 and a \$644,000 mortgage at 6.21 per cent over 25 years, has monthly repayments of \$4,242. Facing financial stress, the owner switches to an interest-only loan at 6.5 per cent, reducing repayments to \$3,489 monthly. They downsize and rent a smaller property for \$2,600 per month. Total monthly expenses are now \$6,089. Renting out their home for \$3,900 per month, they face net out-of-pocket costs of \$2,189 which is \$2,053 per month less than their previous scenario before all tax deductions are claimed.

When a property becomes income producing, many expenses related to the property, including property insurance, rates and management fees, are tax deductible. According to the latest ATO data, property investors claimed an average of \$7,265 on mortgage interest, an average of \$1,255 on council rates and an average of \$1,169 on maintenance and repairs (among other deductions).

Property depreciation is an important additional tax deduction claimed for the natural wear and tear of an income-producing building and its assets over time. It is generally the second largest tax deduction for property investors and as a non-cash deduction, can be claimed without incurring any expense. In the latest ATO data, landlords claimed an average of \$3,834 for property depreciation. BMT data reported an average claim of \$9,692 that same year, and in the FY 2023/2024 reported an average claim of \$11,432 for both new and second-hand residential property.

Below is an illustration of how the cash flow of the owner-occupier turned landlord, is positively impacted when property depreciation is claimed on the rental property.

Table 1: Cash flow on \$920,000 property rented out at \$900 per week before and after depreciation

Townhouse rented out at \$900 per week	Without depreciation	With depreciation
Pre-tax cash flow		
Annual rental income	\$46,800	\$46,800
Annual property expenses	\$55,300	\$55,300
Total taxable income (income less expenses)	-\$8,500	-\$8,500
Depreciation claim	\$0	\$11,200
Total taxable income (income less expenses and depreciation)	-\$8,500	-\$19,700
Post-tax cash flow		
Tax payable / tax refund (taxable income x 37% tax rate)	\$3,145	\$7,289
Net cash flow (annual)	-\$5,355	-\$1,211
Net cash flow (weekly)	-\$103	-\$23
Difference of \$80 per week or \$4,144 per annum		



By claiming tax deductions on the wear and tear of a property’s structure and easily removable or mechanical assets added to the property after vacating and preparing the property for tenants, the landlord can significantly reduce their taxable income and increase annual cash flow by \$4,144. A depreciation schedule prepared by a depreciation specialist can help maximise tax deductions and ensure compliance with ATO regulations.

Transitioning from owner-occupier to landlord offers a pathway to leveraging a property for financial gain and potential capital growth, but there are various factors to consider to ensure the transition is both compliant and financially rewarding.

It is important to note that transitioning from an owner-occupier to a landlord could have capital gains tax (CGT) implications if the property is sold in the future. While a primary residence is generally exempt from CGT, this exemption may be partially lost once the property becomes an income-producing asset. The CGT liability is calculated based on the property’s value increase during the rental period and the potential tax payable could reduce the overall financial gain from the sale.

Seeking advice from accountants, property managers and tax depreciation specialists like BMT Tax Depreciation, provides invaluable insights into the full implications and benefits of this transition.

At BMT, we specialise in helping investors maximise the potential of their investment properties. If you’re considering becoming a landlord, contact us on **1300 268 628** to discover how property depreciation can increase your cash flow or [request a quote](#).



Substantial renovations: The key to maximising depreciation on plant and equipment

Investing in residential property comes with many financial benefits, but it also involves navigating complex tax rules. Among these is claiming depreciation deductions on plant and equipment assets under Division 40 of the Income Tax Assessment Act 1997 (ITAA 1997). Division 40 covers the rules around claiming depreciation for assets that are easily removable or mechanical in nature such as appliances, carpets and blinds, which depreciate in value due to wear and tear over time.

Significant changes announced in May 2017 in the Federal Budget reshaped how investors could claim these deductions, particularly for second-hand properties.

Before 1 July 2017, investors could claim depreciation on plant and equipment regardless of whether the assets were new or second-hand. After this date, investors purchasing residential properties with pre-owned assets like carpets, blinds or appliances, can no longer claim depreciation on these assets if they were used by the former owner or tenants of the property.

Depreciation can still be claimed on new plant and equipment purchased and installed by the new owner of the rental property, even if the property itself is second-hand.

Properties purchased by an investor and classified as 'new residential premises' due to 'substantial renovations' remain eligible for depreciation deductions on plant and equipment.

When is a property deemed 'substantially renovated' and therefore eligible for these deductions?

The A New Tax System (Goods and Services Tax) Act 1999 (GST Act) - SECT 40.75 ties into property investment by defining 'substantial renovations' and how properties are classified for GST purposes. This classification directly impacts depreciation claims under the ITAA 1997.

Substantial renovations involve changes that affect the essential structure of a property, like foundations, walls, floors or roofs. A complete kitchen or bathroom upgrade also contributes to a substantial renovation, however cosmetic upgrades alone, such as painting or replacing fixtures, do not qualify.

A property classified as 'new residential premises' due to substantial renovations can bypass the second-hand depreciation restrictions under the ITAA 1997, which allows investors to purchase the property and claim Division 40 deductions for plant and equipment as though the property were new.

Owners who carry out substantial renovations allow a future investor to claim tax deductions on new plant and equipment installed during the process, which will increase cash flow. Importantly, owners planning to sell after completing qualifying substantial renovations must avoid occupying or renting the property before the sale, to ensure the plant and equipment remain classified as new and not second-hand. For investors, substantial renovations offer a pathway to unlock depreciation benefits while adhering to ITAA 1997 and GST classifications.

Commercial properties and residential properties bought in a company name, remain eligible for depreciation claims on both new and second-hand plant and equipment and are not affected by these amendments.

Due to the complex nature of these revisions, we suggest contacting a depreciation specialist like BMT Tax Depreciation, who has expert knowledge of these changes in tax ruling or request a quote on your residential or commercial investment property by calling **1300 268 628** or visiting bmtqs.com.au.

Boost cash flow with accurate depreciation classifications



BMT Tax Depreciation recently surveyed property investors and over 80 per cent of the 4,500 respondents were unsure whether certain items in their properties classify as plant and equipment (Division 40) or capital works (Division 43). To help investors unlock their full tax benefits, we've clarified the key differences between these categories and addressed common points of confusion, particularly for items that seem to fit both classifications.

Plant and equipment (Division 40)

Plant and equipment (Division 40) includes assets that are removable or mechanical, such as appliances, curtains and carpets. Mechanical items like ceiling fans, hot water systems, light fittings and solar panels also fall under Division 40.

The Australian Taxation Office (ATO) determines the depreciation rates and effective life of these assets and investors can choose between two methods to calculate depreciation on these assets: the diminishing value method, which provides higher initial deductions or the prime cost method, which offers consistent deductions over time.

For residential properties purchased after 9 May 2017, it's important to note that second-hand plant and equipment assets are no longer eligible for depreciation.

Capital works (Division 43)

Capital works (Division 43) covers structural and fixed assets like walls, floors, roofs, driveways and fences. Renovations such as adding new rooms, patios or garages are part of Division 43.

Deductions for these assets occur at a fixed rate of either 2.5 per cent per year over 40 years or 4 per cent per year over 25 years, depending on when the construction or renovation work was completed.

Some items include components that fall under both categories.

A ducted **air conditioner** is an example of an item with split parts that qualify under separate divisions. The unit itself qualifies as Division 40 (removable), but its ducting qualifies as Division 43 (structural).

The **type of flooring** in a property determines the classification. Carpets and removable floating timber floors qualify as Division 40, while tiled floors and fixed timber flooring falls under Division 43.

Kitchen fixtures can also be classified under both divisions. Ovens, rangehoods and cooktops qualify as Division 40, while cabinetry and benchtops qualify as Division 43 because they are fixed to the building structure.

Accurately categorising items in a property is essential for maximising tax deductions and ensuring ATO compliance. Engaging a tax depreciation specialist like BMT Tax Depreciation ensures that all eligible items are identified and correctly classified under Division 40 and Division 43, optimising deductions and boosting cash flow.

The free BMT Tax Depreciation 'health check' every property investor needs

Are you confident you're claiming every tax deduction available on your investment property? Whether you're a new investor eager to uncover potential tax savings, a seasoned investor who's recently renovated or upgraded your property or simply want reassurance that your depreciation schedule is working hard for you, BMT Tax Depreciation has the solution.

Our free, no-obligation property depreciation 'health check' is designed to help you:

- ensure you're not missing any valuable depreciation claims on your new or old investment property
- identify opportunities to boost your tax returns after renovations or improvements
- determine if your current depreciation claim is maximised.

BMT found residential property investors an average of more than \$11,000 in depreciation deductions in the most recent financial year. Brand new properties yielded an average of nearly \$17,000 in the first full financial year of deductions, while second-hand properties averaged over \$6,500.

A single, comprehensive BMT depreciation schedule covers all eligible capital works and plant and equipment deductions for the lifetime of your property. If you've recently purchased or made significant changes to an investment property, it's vital to update your existing schedule to maximise your claims.

Our specialist team will take a look at your property and give you an indication of what your depreciation claim should be.

For a free BMT Tax Depreciation health check call us on **1300 268 628** and let our expert team unlock the full potential of your investment property today.



How Australia’s pet care boom creates lucrative opportunities for property owners



Australia’s love for pets is unparalleled. According to RSPCA data, nearly 70 per cent of Australian households own pets, accounting for an astonishing 29 million pets in a population of 26 million. This deep bond has transformed the pet care industry into a 14 billion dollar economic powerhouse and it’s only growing.

The pet care sector is incredibly diverse, encompassing veterinary services, pet daycare, grooming, training and retail. Veterinary services alone command \$3.2 billion annually, forming the cornerstone of this industry. Technological advancements like telemedicine consultations and state-of-the-art diagnostic tools, have further boosted the appeal and profitability of veterinary clinics.

For investors and business owners, properties used as veterinary clinics offer the combined advantages of long-term tenancy and steady cash flow due to sustained demand, as well as the added benefit of substantial opportunities for property depreciation deductions.

In addition to veterinary services, the rising popularity of pet daycare and boarding facilities presents another lucrative avenue for property owners. These establishments often cater to pet owners seeking reliable care options during workdays or holidays and include features like climate-controlled kennels, spacious leisure areas with swimming pools and equipment for formal training and grooming services. These comprehensive facilities are highly appealing to busy pet owners who are not only willing to pay for top-tier medical care but are also increasingly drawn to other premium pet care services.

Investing in pet care facilities requires a thorough understanding of state-specific welfare codes and building regulations. These standards ensure the health, safety and comfort of the animals and include considerations like adequate shelter and climate control, noise reduction measures and proper ventilation and drainage systems to ensure a hygienic and safe environment.

Meeting these requirements is not only a legal necessity but also a competitive advantage. Facilities that comply with or exceed these standards are more likely to attract premium tenants and loyal clientele. The property owner, as well as the veterinary clinic - or pet accommodation operator, can all claim property tax depreciation on these facilities.

Capital works deductions can be claimed for the wear and tear on the structural elements of the building, including the partitions, required plumbing and drainage systems, as well as purpose-built kennels and enclosures with fences and walkways.

Plant and equipment refers to the deductions available on the wear and tear of assets that are easily removable or mechanical in nature. These assets depreciate at a faster rate than the building itself and each asset has its own individual ‘effective life’ as determined by the ATO.

Industry-specific assets with depreciation value include medical equipment, climate control systems and pet grooming baths and pet-specific spa equipment. More general assets with depreciation value will include furniture, light fittings, office equipment and security systems.

Optimising these deductions can significantly improve the cash flow of the property owner as well as the veterinary clinic or pet accommodation operator.

The following case study showcases an owner-operated veterinary clinic and boarding kennel that requested a depreciation schedule to maximise deductions for their capital works and plant and equipment assets.

Table 1: Capital works and plant and equipment deductions available

Assets	Cost
Stainless steel animal cages	\$163,636
Autoclaves and sterilisers	\$5,124
Dental units	\$37,495
Operating tables and attachments - Electronic	\$5,681
Pathology assets	\$9,089
Surgical instruments - Hand held manually operated instruments	\$4,513
Veterinary assets	\$73,147
Mobile or portable x-ray units	\$53,700
Pet wash assets	\$9,091
Swimming pool cleaning assets	\$1,678
Hydrobaths	\$1,818
Other general property and clinic assets	\$117,472
Total Division 40 (plant and equipment)	\$482,444
Total Division 43 (capital works)	\$874,119
Total depreciation	\$1,356,563

Whether upgrading properties to meet the needs of a veterinary clinic or developing facilities for premium pet daycare, Australia’s thriving pet care industry offers a wealth of opportunities for property owners. Furthermore, tax benefits through property tax depreciation can enhance cash flow for both property investors and veterinary or pet care service operators, making these investments even more attractive.

To further explore the potential of property tax depreciation in the petcare industry, contact BMT Tax Depreciation on **1300 268 628** or [request a quote](#).

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	\$1,921	\$2,150	\$2,660
		3BR brick veneer project home, level block, single level, shelf design	\$2,047	\$2,280	\$2,723
		3BR full brick project home, level block, single level, shelf design	\$2,127	\$2,363	\$2,954
		4BR weatherboard home, level block, single level, unique design	\$2,697	\$2,882	\$3,597
		4BR brick veneer home, level block, single level, unique design	\$2,866	\$3,001	\$3,777
		4BR full brick home, level block, single level, unique design	\$3,205	\$3,662	\$4,035
		3BR brick veneer project home, level block, two level, shelf design	\$2,134	\$2,359	\$2,909
		3BR full brick project home, level block, two level, shelf design	\$2,214	\$2,490	\$3,054
		4BR brick veneer home, level block, two level, unique design	\$2,909	\$3,288	\$3,816
		4BR full brick home, level block, two level, unique design	\$3,215	\$3,691	\$4,030
		Architecturally designed executive residence	\$4,267	\$5,462	\$7,641
	Townhouse	2BR single level brick veneer townhouse including allowance for common property	\$3,011	\$3,425	\$3,858
		2BR 2 level brick veneer townhouse including allowance for common property	\$3,091	\$3,482	\$4,047
		3BR single level brick veneer townhouse including allowance for common property	\$2,982	\$3,396	\$3,815
		3BR 2 level brick veneer townhouse including allowance for common property	\$3,063	\$3,568	\$4,062
	Units	3 level walk-up unit complex, concrete structure, ground floor parking	\$3,169	\$3,402	\$4,128
		3 level walk-up unit complex, concrete structure, basement parking	\$3,106	\$3,338	\$4,062
		4-8 level unit complex, including lift, concrete structure, ground floor parking	\$3,621	\$3,896	\$4,719
		4-8 level unit complex, including lift, concrete structure, basement parking	\$3,541	\$3,815	\$4,641
		8 or more level unit complex, including lift and basement car parking	\$3,757	\$4,264	\$5,422
	Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	\$3,266	\$3,641	\$4,278
		4-8 level open plan offices, including A/C & lifts, excluding fit out	\$3,785	\$4,062	\$5,461
		8 levels and over, including A/C & lifts, excluding fit out	\$5,416	\$5,719	\$5,981
	Industrial	High Bay Warehouse, standard configuration, concrete floor, metal clad	\$1,555	\$1,756	\$1,893
		High Bay Warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	\$1,909	\$2,018	\$2,249
	Retail	Suburban shopping mall area including A/C	\$4,079	\$4,252	\$4,758
		Supermarket, including A/C, excluding fit out	\$2,583	\$2,758	\$3,091
	Hotels/motels	Single level boutique motel including A/C, guest facilities	\$5,025	\$5,749	\$7,558
		Single level tavern/hotel including A/C, excluding loose item fit out	\$4,192	\$4,989	\$6,003

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 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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