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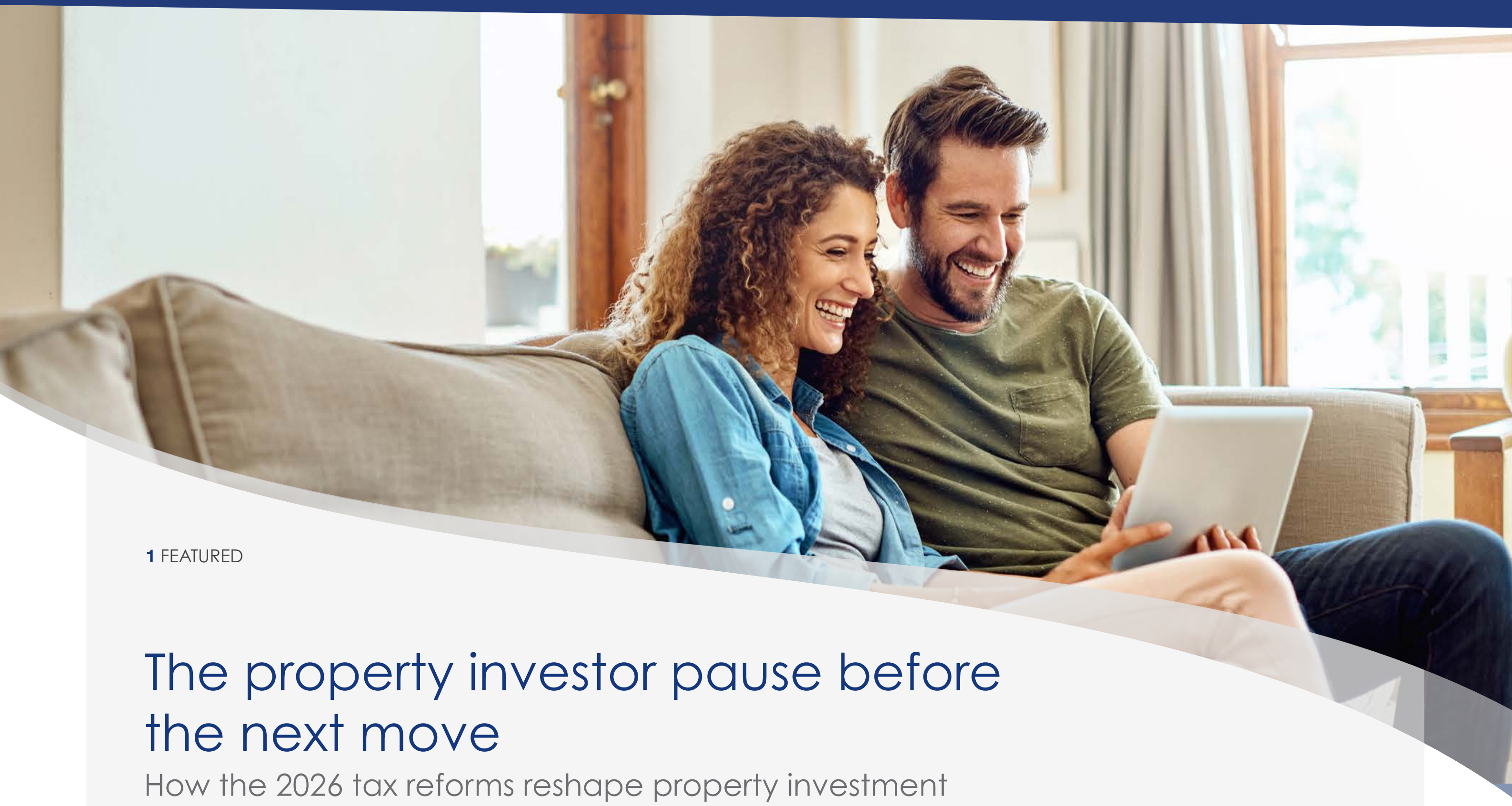

1 FEATURED

The property investor pause before the next move

How the 2026 tax reforms reshape property investment

The 2026 property tax reforms have prompted many investors to reassess their next move. Decisions about when to buy, which properties to invest in, and how the reforms will affect future tax outcomes are becoming central to investment discussions.

While tax treatment is an important consideration, it remains only one part of the investment equation. Rental demand, cash flow, holding costs, long-term growth potential and available tax deductions all contribute to the overall outcome.

With several factors now in play, understanding how depreciation, supporting records and the reforms work together can help investors maximise available deductions while making more informed decisions.

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BMT Tax Depreciation
QUANTITY SURVEYORS

Comparing the property, not just the tax treatment

Tax reforms can naturally create uncertainty, prompting some investors to adopt a wait-and-see approach.

However, an investment property purchase still needs to stack up on the fundamentals that will influence the performance. Rental demand, yield, holding costs, location, vacancy risk and growth drivers should remain central to any assessment.

A newly completed townhouse may offer stronger depreciation benefits, negative gearing benefits, the 50 per cent capital gains tax discount option and lower maintenance costs but come with a higher purchase price or exposure to an emerging rental market. While an established townhouse may be affected differently by the reforms, it can still benefit from proven demand, established infrastructure and a more mature, reliable location.

Investors should also understand some of the finer detail, which can change the tax scenario and therefore annual holding costs. For example, under the reforms, new housing will naturally attract attention, but there are intricacies in the detail. Investors need to understand whether a property is likely to meet the eligibility criteria for new housing. A straightforward knock-down rebuild will not receive the same negative gearing treatment as a new dwelling on a vacant site that increases housing supply.

Two properties with similar purchase prices and rental income can deliver very different outcomes once income, finance costs, maintenance, depreciation opportunities, and the availability of negative gearing are considered.

The example below compares two investment properties and shows how the different tax treatment influences the annual cost of ownership.

Table 1: Comparing the annual holding costs of a new and established investment property

	New property	Established property*
Purchase price	$880,000	$720,000
Annual income	$36,960	$30,160
Annual expenses	$61,000	$48,500
Total loss before depreciation	$24,040	$18,340
Tax refund at 30%	$7,212	Not applicable - loss carried forward
Net cost to own property	$16,828 / $324 week	$18,340 / $353 week
Depreciation claim	$17,000	$8,000
Total deduction after depreciation	$41,040	$26,340
Tax refund at 30%	$12,312	Not applicable - loss carried forward
Position after depreciation	$11,728 / $226 week immediate cash flow difference	$26,340 carried forward
Depreciation difference	$5,100 / $98 week	Increases the carried-forward loss by $8,000

*Impacted by Federal Budget changes. This comparison assumes the established property is purchased after 12 May 2026, and that the quarantining treatment applies from 1 July 2027

Before depreciation, the new property costs $324 per week to hold compared with $353 per week for the established property. After depreciation, the new property's after-tax holding cost reduces to $226 per week at a 30 per cent marginal tax rate.

Under the 2026 reforms applying from 1 July 2027, the established property's rental loss is assumed to be quarantined and carried forward rather than immediately deductible. While depreciation still increases the total deductible loss, it does not improve current-year cash flow. Instead, the carried-forward loss increases from $18,340 to $26,340, providing a future tax benefit when positive cash flow is achieved or the property is sold for a gain.

Key takeaway

Investors should always assess the whole investment, not simply the tax outcome. Purchase price, rental income, holding costs, depreciation, maintenance and capital growth all affect the long-term investment performance.

Depreciation should continue to be calculated even where the immediate tax benefit is deferred. It forms part of the total residential property loss that will be carried forward under the new rules. Missing this step could make it more difficult to substantiate and use the quarantined losses in future.

Depreciation and future cash flow

Depreciation deserves particular attention because it is a non-cash deduction. Unlike interest, insurance or maintenance, it reduces taxable income without requiring an equivalent cash outlay.

Where losses are quarantined, understanding how deductions accumulate becomes increasingly important. Carried-forward deductions will later offset positive rental income or capital gains long into the future, making accurate records more valuable over the life of the investment.

A tax depreciation schedule identifies eligible deductions for the building structure and qualifying assets while creating a documented record of how those deductions arise over time. Preparing the schedule early, using details such as the property's construction date, renovation history, ownership timing, and asset condition, helps ensure deductions are maximised, accurately calculated and properly supported.

Records that carry weight

A tax depreciation schedule forms part of the broader record-keeping required for an investment property, alongside contracts of sale, settlement statements, building documents, renovation invoices, rental statements and professional advice.

Together, these documents help establish when a property became income-producing, what improvements have been completed and which deductions may be available. Strong records also give investors greater confidence when assessing cash flow, preparing tax returns and planning for future tax outcomes.

The reforms change aspects of the framework, but they do not change the fundamentals of property investing. A property still needs to justify its place in a portfolio based on its overall performance and long-term growth potential.

For a tax depreciation schedule that supports current claims, future records and stronger investment decisions, contact BMT Tax Depreciation on **1300 728 726** or **Request a Quote.**

New data shows depreciation remains a major deduction for residential property investors

ATO statistics released in June 2026 show claiming depreciation should remain a priority for investors. Of the deductions published, depreciation was the second-largest deduction after interest, highlighting the need to check whether records support an accurate and compliant claim.

Depreciation allows investors to claim the decline in value of a property's structure and qualifying assets over time. Unlike out-of-pocket costs such as interest repayments and management fees, it is a non-cash deduction that can reduce taxable income without adding another direct cash outlay.

According to the latest ATO data, the average plant and equipment deduction was $1,189, while the average capital works deduction was $2,769 for residential investment properties. This brought the average residential property depreciation claim to $3,957 in FY 2023-24.

These figures show depreciation remains a valuable deduction, and they also highlight why investors should check whether their claim is reaching its full potential. By comparison, BMT Tax Depreciation schedules produced an average claim of $6,696 in FY 2023-24, approximately 70 per cent higher than the ATO average property depreciation claim. More recently, BMT's residential investment property clients claimed an average of more than $12,000 in first full financial-year depreciation deductions in FY 2025-26.

The ATO figures also provide useful context across other common rental property deductions. In 2023-24, the average interest on loans claim was $13,314. The average body corporate fee claim was $3,156, the average property management fee claim was $1,603 and the average repairs and maintenance claim was $1,276. These costs are usually easier for investors to identify because they are supported by loan statements, invoices or payment records (see table 1).

Depreciation can be harder to identify without a detailed review of the property itself. Renovation history, building age, construction type, asset quality and condition can all affect the final calculation. BMT's specialist site inspections help identify eligible plant and equipment assets, capital works and improvements. These details can reduce the risk of missed deductions and support a more complete depreciation schedule as physical site inspections help identify details that may not appear in property records or sales documentation.

Capital works generally relate to the building and fixed improvements, including structural elements and fixed assets. These deductions are often claimed over many years, which means previous works often completed by former owners will still support current and future deductions. Plant and equipment covers eligible assets that are generally removable or mechanical in nature, such as floor coverings and ceiling fans. The 2017 budget amendments for second-hand residential property can limit some plant and equipment claims, but investors who buy and install new assets will still have depreciation deductions available.

Tax planning may also require more attention in the coming years. Under the 2026-27 Federal Budget reforms, negative gearing and capital gains tax rules will change for established properties from 1 July 2027.

A current BMT Tax Depreciation Schedule helps identify eligible deductions, calculate claimable amounts and document the basis for those figures. It can also give an accountant clearer information to work with, especially where a property has been renovated, improved or had assets replaced.

Arranging a BMT Tax Depreciation Schedule can help confirm whether all available deductions have been identified and give investors stronger records before lodging their return. To get started, call BMT on **1300 728 726** or **Request a Quote today.**

Table 1: Average first full financial-year depreciation claim achieved by BMT in FY 2025-26

Property descriptition	Construction dates	Percentage of total	Average first full year deduction
Old	Pre-1987	3.9%	$4,588
1987-2003	1987-2003	15.8%	$5,929
2004-2016	2004-2016	22.0%	$7,193
Fairly new	2017-2022	14.7%	$9,028
Brand new	2023-2026	43.7%	$18,959
Total			**$12,387**

*Calculated using the diminishing value method.

4 TIPS

The property details that can add thousands to a depreciation claim

A tax depreciation schedule can appear straightforward. It outlines deductions for the building structure and eligible assets, providing the figures required at tax time.

Behind those figures, however, sits a detailed assessment. Two similar properties can produce very different depreciation outcomes depending on the information available.

The finer details shaping the schedule

A property's construction date helps determine what capital works deductions may be available, but the construction method can also influence the claim. For example, a timber-framed house with cladding will have a different construction cost to a similarly sized property built with a steel frame and brick veneer. Capital works deductions are based on construction costs, so these differences will affect the outcome.

Renovation history will also have a significant impact. Bathroom upgrades, new flooring and replaced appliances all affect depreciation, depending on what work was completed, when it occurred and who paid for it.

Asset classification is another important factor. A kit garden shed may be treated as plant and equipment, while a permanently constructed shed with electrical services may be treated as capital works. While both may serve the same purpose, the construction, installation and connected services can change how the deduction is claimed.

This distinction matters because eligible plant and equipment assets are depreciated over their effective life, which is often shorter, while capital works are generally claimed over 40 years at 2.5 per cent per year. Timing also matters. The settlement date and the date the property first became available for rent help determine the claim available in the first financial year. Incorrect dates can result in deductions being missed or understated.

What an inspection can reveal

A physical site inspection allows us to identify details that may not appear in property records or sales documentation. Fixtures, finishes, outdoor structures, common property and signs of previous improvements can often only be accurately assessed in person.

This is particularly valuable when investors have incomplete information about a property's history. Details provided by agents, vendors or property managers may not capture every improvement or depreciable asset, while a physical inspection can uncover items that might otherwise be overlooked such as footings, electrical works and new roofing. Missing these items may equate to thousands of dollars in unclaimed deductions each year, which is why the Australian Institute of Quantity Surveyors (AIQS) strongly recommends completing a full site inspection.

It also strengthens compliance by capturing supporting evidence, ensuring the schedule is based on property-specific observations rather than assumptions.

The evidence behind the claim

The accuracy of a depreciation schedule depends on the information available. Contracts, settlement documents, construction details, renovation records, site inspection photos and rental information all help support a well-prepared assessment.

The goal is to produce a maximised schedule that reflects the property's circumstances and is supported by evidence.

For a depreciation schedule prepared using property-specific information and accurate asset classification, contact BMT Tax Depreciation on **1300 728 726** or **Request a Quote.**

4 TOOLS

MyBMT: Where property records meet cash flow

Managing an investment property involves more than keeping track of rental income and expenses. Over time, changes such as renovations, asset upgrades, property damage or accountant requests can affect the information investors rely on at tax time.

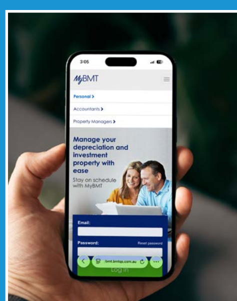
MyBMT brings these records here in one secure location, helping investors keep important property information connected and accessible throughout the year. Rather than treating a tax depreciation schedule as a document that's only referenced at tax time, MyBMT allows investors to store and manage the information that supports it, gives it context, from property details to updates that could affect future claims.

This can be particularly valuable when multiple parties are involved in managing a property. Property owners, property managers and accountants often rely on the same information at different stages of the financial year. Keeping records current and centralised can help streamline communication and ensure decisions are based on the latest available information.

MyBMT also provides access to PropCalc, BMT's property cash flow calculator. By incorporating rental income, expenses, cash flow and tax depreciation estimates, PropCalc helps investors better understand the ongoing holding costs of their property. Investors can also compare multiple properties, test different scenarios and work out the overall positive or negative gearing position of one or more properties, a key consideration ahead of the property tax reforms applying from 1 July 2027.

More than a document portal, MyBMT is designed to help investors stay organised, informed and connected to the information that supports smarter property decisions. The platform gives you access to depreciation information, insurance quotes, valuable market analysis and helpful property tools for the most experienced to first-time investors.

To keep your property records, tax depreciation schedules and PropCalc access in one place, log in or create your account today at **mybmt.bmtqs.com.au**



Why residential investors are taking a closer look at small commercial property

Smaller commercial assets may offer different tax positions, a competitive entry point and meaningful depreciation potential as residential settings shift.

With residential property tax settings changing, some investors are widening the search for their next purchase. Negative gearing changes are focused on certain residential properties rather than commercial assets, prompting some investors to reassess opportunities outside the traditional residential market.

Commercial property does not have to mean large office towers, logistical facilities or industrial complexes. Strata offices, consulting rooms, allied health suites, small warehouses, retail premises, industrial units and storage units can provide access to the sector at a price point comparable to many established residential investments.

A different lease equation

Many smaller commercial properties are located in familiar settings such as suburban centres, medical precincts, business parks and mixed-use developments. The key difference is the tenant. Instead of a household, a business occupies the space, making the lease a critical factor in assessing income security.

Lease length, renewal options, rent reviews, incentives, make-good obligations, permitted use and guarantees can all influence an asset's income profile. While a long lease may appear attractive, the underlying terms often determine the strength of the investment.

Vacancy can also present different challenges. Residential properties generally appeal to a broad tenant market, whereas commercial premises may require a tenant with specific operational needs, approvals or customer access. A specialised fit-out that suits one business may not suit the next occupant.

Fit-out, ownership and depreciation

Fit-outs are often one of the most significant differences between residential and commercial property. Partitions, flooring, lighting, air-conditioning, cabinetry, plumbing, security systems and signage can all contribute to depreciation deductions. Commercial property is also unaffected by the 2017 changes that restrict depreciation claims on previously used plant and equipment in residential properties.

However, ownership is not always straightforward. Some assets may belong to the property owner, while others may have been installed and paid for by the tenant. This distinction can affect the depreciation eligibility and should form part of the due diligence process before purchase.

The following table highlights examples of second-hand commercial properties purchased for less than $1 million where BMT completed tax depreciation schedules during FY 2025-26. These typical examples are based on individual depreciation schedules and demonstrate how deductions can vary across asset types.

Table 1: Depreciation deductions on small commercial assets

Property type	1st year deductions	5 year cumulative
Warehouse	$23,645	$100,804
Office	$22,575	$93,012
Restaurant	$13,363	$57,212
Retail store	$14,367	$52,167
Hair salon	$12,653	$41,522

*Calculated using the diminishing value method.

The variation reflects factors beyond purchase price. Building structure, renovation history, construction type, condition, plant and equipment assets, tenancy history and fit-out ownership can all influence the final claim. As a result, two properties with similar values may generate very different depreciation outcomes.

The practical impact of depreciation can be seen by comparing the same property with and without a depreciation claim. The cash flow analysis below demonstrates this, with depreciation improving the annual cash flow position by more than $8,700.

Table 2: Warehouse purchased for $1,000,000

	Without depreciation	With depreciation
Pre-tax cash flow		
Annual income	$57,200	$57,200
Annual expenses	$80,000	$80,000
Total loss (before depreciation)	$22,800	$22,800
Depreciation claim	Nil	$23,645
Total loss (tax deduction)	$22,800	$46,445
Post-tax cash flow		
Tax refund (loss x 37% rate)	$8,436	$17,185
Net cost to own property	$14,364 year $276 week	$5,615 year $108 week

Looking beyond residential

For investors considering alternatives to residential property, commercial assets introduce a different set of considerations. Lease quality, tenant profile, vacancy risk, permitted use and fit-out ownership can all affect cash flow and long-term performance.

As investors compare opportunities across property sectors, understanding the depreciation position before purchase can help provide a clearer picture of potential holding costs and returns.

For first-time commercial investors looking beyond residential property, contact BMT Tax Depreciation on **1300 728 726** or **Request a Quote** to understand the depreciation picture before purchase and assess potential deductions alongside cash flow.

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	90 - 102%
Canberra	92 - 105%
Melbourne	92 - 105%
Adelaide	90 - 102%
Sydney	100 - 100%
Perth	93 - 105%
Brisbane	98 - 110%
Cairns	95 - 108%
Darwin	90 - 98%

Construction type		Level of finish (per m²)		
		Low	**Medium**	**High**
House	3BR weatherboard project home, level block, single level, shelf design	$2,091	$2,341	$2,896
	3BR brick veneer project home, level block, single level, shelf design	$2,228	$2,483	$2,965
	3BR full brick project home, level block, single level, shelf design	$2,316	$2,572	$3,216
	4BR weatherboard home, level block, single level, unique design	$2,936	$3,137	$3,915
	4BR brick veneer home, level block, single level, unique design	$3,120	$3,267	$4,112
	4BR full brick home, level block, single level, unique design	$3,490	$3,987	$4,393
	3BR brick veneer project home, level block, two level, shelf design	$2,324	$2,568	$3,167
	3BR full brick project home, level block, two level, shelf design	$2,410	$2,710	$3,325
	4BR brick veneer home, level block, two level, unique design	$3,167	$3,579	$4,154
	4BR full brick home, level block, two level, unique design	$3,500	$4,018	$4,387
	Architecturally designed executive residence	$4,645	$5,947	$8,318
Townhouse	2BR single level brick veneer townhouse including allowance for common property	$3,291	$3,729	$4,200
	2BR 2 level brick veneer townhouse including allowance for common property	$3,378	$3,791	$4,406
	3BR single level brick veneer townhouse including allowance for common property	$3,259	$3,697	$4,154
	3BR 2 level brick veneer townhouse including allowance for common property	$3,347	$3,884	$4,422
Units	3 level walk-up unit complex, concrete structure, ground floor parking	$3,461	$3,704	$4,494
	3 level walk-up unit complex, concrete structure, basement parking	$3,391	$3,633	$4,422
	4-8 level unit complex, including lift, concrete structure, ground floor parking	$3,953	$4,241	$5,138
	4-8 level unit complex, including lift, concrete structure, basement parking	$3,866	$4,154	$5,053
	8 or more level unit complex, including lift and basement car parking	$4,102	$4,642	$5,903
Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	$3,552	$3,964	$4,658
	4-8 level open plan offices, including A/C & lifts, excluding fit out	$4,116	$4,422	$5,946
	8 levels and over, including A/C & lifts, excluding fit out	$5,890	$6,226	$6,511
Industrial	High Bay Warehouse, standard configuration, concrete floor, metal clad	$1,691	$1,912	$2,061
	High Bay Warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$2,077	$2,197	$2,448
Retail	Suburban shopping mall area including A/C	$4,432	$4,629	$5,180
	Supermarket, including A/C, excluding fit out	$2,806	$3,003	$3,365
Hotels/motels	Single level boutique motel including A/C, guest facilities	$5,481	$6,259	$8,228
	Single level tavern/hotel including A/C, excluding loose item fit out	$4,572	$5,431	$6,535

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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