

# BMT Tax Depreciation

QUANTITY SURVEYORS

Maximising Property  
Depreciation Deductions



THE  
BMT Tax Depreciation  
QUANTITY SURVEYORS  
HANDBOOK

# The BMT Tax Depreciation Handbook

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# 1. Introduction

Claiming tax depreciation deductions on your investment property has become an important part of a property investing strategy, but the legalities surrounding property depreciation can leave many property investors scratching their heads. It's the aim of this handbook to answer the most commonly asked questions asked by our property investor clients.

In order to claim deductions for property depreciation a tax depreciation report should be obtained for each income-producing building. These reports must be prepared by an appropriately qualified person. Quantity surveyors who are registered tax agents have the knowledge and expertise to prepare comprehensive tax depreciation reports. In the following pages we hope to clarify the purpose, process and product of tax depreciation reports for everyone.

## 2. Depreciation Basics

As a building gets older and items within it wear out, they depreciate in value. The ATO allows property investors to claim a deduction related to the building and the plant and equipment items within it. This can be claimed by any owner of an income-producing property. This deduction essentially reduces the investment property owner's taxable income – they pay less tax!

When a quantity surveyor completes an investor's capital allowance and tax depreciation schedule, two main elements are taken into consideration:

- Capital Works Allowance (Division 43) and
- Plant and Equipment (Division 40).



### Capital Works Allowance (Building Write-Off)

The capital works allowance is a deduction available for the structural element of a building including fixed irremovable assets. This is commonly referred to as the 'building write-off'. Only some properties will qualify for this allowance. Depending on the age of the building you can claim either 2.5% or 4% of its historical construction cost, as the following graph (Fig. 1) represents:



Figure 1: Construction commencement dates for building write-off

Capital Allowance Deductions (Division 43) are based on the historical cost of the building, excluding the cost of all 'plant' and non-eligible items.

If your residential investment property was built any time after 18 July 1985, then you are entitled to claim a Building Write-Off Allowance of 2.5% or 4% for 40 or 25 years from the date of construction. The write-off allowance available on a property is determined by the date of commencement of the capital improvement works. All income-producing buildings, refurbishments, extensions and fit-outs which have commenced construction within the correct dates should qualify for this Division 43 allowance.

### **Plant and Equipment Depreciation**

The plant and equipment depreciation is a deduction available for assets that depreciate at a faster rate than the building. Each plant and equipment item has an effective life set by the ATO and the depreciation available on that item is calculated accordingly.

Some of the plant and equipment items commonly found within a property include:

- |                     |                          |                    |
|---------------------|--------------------------|--------------------|
| → hot water service | → ovens                  | → vinyl            |
| → ceiling fans      | → floating timber floors | → furniture        |
| → dishwashers       | → rangehoods             | → clothes dryer    |
| → carpet            | → smoke alarms           | → freestanding spa |
| → blinds            | → air conditioners       | → curtains         |
| → exhaust fans      | → light shades           | → security systems |
| → washing machines  | → microwaves             | → cooktops         |

It is important to always consult a Quantity Surveyor about your depreciation claim.

## 3. Older properties and depreciation

### Is my property too old?

Many investors remain unsure about whether it is worthwhile obtaining a depreciation report for a residential property that was built before 1985.

Current tax legislation states that any property built before 18 July 1985 (residential) or 20 July 1982 (non-residential) cannot claim the capital works allowance as a deduction. However it is worth enquiring about **any** property - even one that is 100 years old! If any extensions or renovations were completed after 1985 (residential) or 1982 (non-residential), they will attract the capital works allowance.

Additionally, in the case of older properties, a capital allowance and tax depreciation report covers not only the capital works allowance but depreciation of plant and equipment as well. This means that all properties that obtain an income by the way of rent should be eligible to claim a deduction for the plant and equipment items contained within the property.

### What if you are still unsure about your property's depreciation potential?



BMT Tax Depreciation will discuss any property scenario free of charge and obligation free.



If we inspect the property and believe that it is not worth completing a depreciation report, we will not charge you for our services to that point.



If we can't obtain double our fee worth of deductions in the first full financial year claim, there will be no charge for our services.



## 4. Making your principal place of residence an investment

More and more Australians every year are becoming property investors, sometimes accidentally, by changing their principal place of residence (PPR) to an income producing investment property. This article looks into issues associated with this change and how a Quantity Surveyor can structure your Tax Depreciation and Capital Allowance Report to maximise the cash returns on your home once it has become an investment property.

Government incentives which have motivated first home buyers over the past 18 months has increased the number of PPR's becoming investment properties. New property owners had to live in a property for an extended period of time to qualify for first home owners grants. Once this time has expired, some property owners look to rent out their PPR.

Many circumstances will dictate when a PPR becomes an investment property – for example, the owner may move interstate for work; travel for an extended period overseas; they may simply decide to purchase and occupy another property or it may be financially beneficial to rent out their home and rent themselves.

It is often more economically attractive to rent out a previous home rather than sell it, especially when factoring in past and future capital growth potential. Owners may still be able to use equity as security for their new PPR and with the costs associated with selling property, they are simply choosing to retain their home and rent it out. Owners may also want the flexibility of being able to return to the property to live if required at a later date.

### **Changing Tax Situation**

Turning a PPR into an income producing property creates a different scenario for the owner's tax situation; expenses in holding the property like interest costs, rates and management fees will become tax deductible making owning the property more affordable. The rent also becomes assessable income!

Another tax deduction available for the owner while the property is income producing is depreciation on the fixtures and fittings, and the capital allowance on the structure of the property (if it was built within qualifying dates). A Tax Depreciation report should work out the exact number of days that a property was rented in the first financial year as an investment property. This gives the accountant an exact total deduction available for the partial year. A Tax Depreciation Report should also include any capital improvements that were made, even if they were completed while the property was a PPR, there are still potential claims for these items when the property becomes an investment.

*For example: Frank purchased a property in 2006, once he moved into the property he decided to put in a new bathroom and kitchen. In 2008 he decided to travel and work overseas and rent his property out. He engaged a leading Quantity Surveying firm to complete a tax depreciation and capital allowance report and was surprised to find that the new kitchen appliances, cupboards, tiles and bathroom accessories substantially increased his per year deduction for depreciation and building write off over the next 40 years.*

A Quantity Surveyor is also able to structure a report to effectively maximise the depreciation deductions until the property becomes income producing. Effectively this minimises the deductions while the property is not income producing and maximises the deductions as soon as a depreciation claim is available when the property is producing income.

### **Capital Gains Implications**

A PPR will be exempt from Capital Gains Tax (CGT), however when a home is changed to an investment property some CGT may be triggered if the property is eventually sold. There are a number of scenarios which will reduce or create a total CGT exemption. It is important to discuss this with an accountant as each individual scenario is different depending on the property's first use, how long someone lived in the property, how long it is income producing and if the owner purchased another PPR.

If you have made your home an investment property or you are thinking of making the change, contact a specialist Quantity Surveying firm and they should be able to provide an indication of the likely depreciation and capital allowance deductions you can expect from your property.



## 5. Long or short term investment – how does property depreciation change things?

When investing in property for a short or long term it is important to understand the effects of property depreciation and how it can change an investment.

The Australian Taxation Office (ATO) allows investors to use two alternative methods of depreciation.

1. Diminishing Value Method - accelerates depreciation deductions quickly
2. Prime Cost Method - spreads the deductions out over time.

The long term intentions of the property investor will determine which depreciation method will be most suitable for them. An investor must decide to use only one method; each method effects the long term cash flow position in a different way.

Under the Diminishing Value method the deduction is calculated as a percentage of the balance you have left to deduct. The deductions will be higher in the first five years and diminish over time. This is because you are claiming a greater proportion of the asset's cost in the earlier years of the effective life.

Under the Prime Cost method the deduction for each year is calculated as a percentage of the cost per year. This results in a more even spread of deductions over a longer time.

It depends on your investment strategy as to which method is best for you, you will need to consider how long you intend to hold the property and if you are going to need higher deductions now or in ten years time. Your accountant is the best person to discuss this with.

If an investor purchases a property for the purposes of a short term investment and planned to sell it in approximately five years time, the Diminishing Value method may be a more attractive option to take, as it provides higher returns over the earlier years. If the owner was intending to retain ownership for a longer period of time then the Prime Cost option may be more suitable, as it provides a constant long term projection of what the investor's tax deductions will be.

Our experience shows that most investors employ the Diminishing Value method on both long and short term investments as depreciation deductions under this method are cumulatively higher over the first five of ownership, when they need the deductions most.

Below is an example of how the Diminishing Value method compares to the Prime Cost method in deductions obtained per year for ten years.

|            | Diminishing Value Method | Prime Cost Method |
|------------|--------------------------|-------------------|
| Year One   | \$8,658                  | \$6,606           |
| Year Two   | \$8,930                  | \$6,126           |
| Year Three | \$6,948                  | \$6,126           |
| Year Four  | \$6,197                  | \$6,126           |
| Year Five  | \$5,103                  | \$6,124           |
| Year Six   | \$4,408                  | \$4,813           |
| Year Seven | \$4,118                  | \$4,720           |
| Year Eight | \$3,744                  | \$4,718           |
| Year Nine  | \$3,513                  | \$4,718           |
| Year Ten   | \$3,368                  | \$4,708           |

Figures based on a purchase price of \$400,000; 15 year old house

Remember to discuss these options with your accountant, every property investor's situation is different, your accountant will know which method is best for you.

## 6. Considering a renovation? Why a pre-renovation report is important

When purchasing an older investment property, many investors decide to renovate after settlement. Investors can often claim thousands of dollars in deductions when renovations are done.

### Get more when you renovate

Has the time come to renovate an investment property? Make sure you do everything to maximise the cash flow potential of your next renovation project. Thinking about the types of new fittings and fixtures before you install them may generate you thousands of dollars in depreciation deductions.

Many investors purchase properties that require improvement. They usually do this with the sole purpose of renovating to create equity and generate extra rent. Once you have decided to renovate your investment property, it is important to ensure you obtain the best long term value from the money you are outlaying. Renovations can be expensive, so it makes financial sense to obtain the maximum depreciation benefit where possible. When it comes to deciding which new item to install in a property, some consideration should be applied to the depreciation potential of the alternative item/s.

### Maximising depreciation on new items

#### 1. Floor Coverings

Which new floor covering should you install to increase your depreciation potential - carpet, floating timber floorboards or tiles? The depreciation available on these items differs due to their different effective lives.

The following example is based on spending \$2,000 on floor coverings:

| Item                        | Effective Life | Depreciation 1st Year |
|-----------------------------|----------------|-----------------------|
| Carpet                      | 10 years       | \$400 <b>Maximum</b>  |
| Floating Timber Floorboards | 15 years       | \$267                 |
| Tiles                       | 40 years       | \$50                  |

## 2. Light Fittings

Considering ornamental light fittings or down lights?

The following example is based on spending \$2,000 on lighting:

| Item                      | Effective Life | Depreciation 1st Year |
|---------------------------|----------------|-----------------------|
| Ornamental Light Fittings | 5 years        | \$800 Maximum         |
| Down Lights               | 40 years       | \$50                  |

## 3. Air Conditioning

Deciding between an air conditioning unit and ducted air conditioning?

The following example is based on spending \$5,000 on cooling:

| Item                           | Effective Life | Depreciation 1st Year |
|--------------------------------|----------------|-----------------------|
| Air Conditioner – Split System | 10 years       | \$1000 Maximum        |
| Ducted Air Conditioning Unit   | 15 years       | \$667                 |

(Amounts based on Diminishing Value Method using current legislation)

As shown in these examples, installing assets for their depreciation potential is certainly worthwhile. Depending on the size of the property and the extent of the renovations, the deductions obtained from the new items may improve your cash flow in the first years of ownership by thousands of dollars each year.

### Effective lives explained

The effective life of an asset is used by a Quantity Surveyor to work out an asset's decline in value.

The Australian Taxation Office (ATO) describes an effective life of an asset as:

'the period of time that a depreciating asset can be used by any entity to produce assessable income:

- assuming it will be subject to wear and tear at a reasonable rate,
- assuming it will be maintained in reasonably good order and condition, and
- having regard to the period within which it is likely to be scrapped, sold for no more than scrap value or abandoned.' (www.ato.gov.au)

## **Depreciation deductions on structural renovations**

If structural construction work is completed as part of the renovations (such as a new roof, walls or ceiling) this can also be claimed. Any work carried out after 18 July 1985 (residential property) or 20 July 1982 (non-residential property) will be eligible to claim the capital works allowance (Division 43).

## **Renovations carried out by previous owners**

When a Quantity Surveyor completes your tax depreciation report, they should always take into consideration the renovations carried out by previous owners. Even though you have not carried out the work yourself, there may be depreciation deductions for you to claim. A thorough site inspection should be undertaken on your property by a Quantity Surveyor identifying previous renovation works. Further council searches can also reveal details of previous renovations carried out on the property.

## **I've done a renovation myself. Can I claim my personal labour?**

You can only claim depreciation for renovations on the amounts that you have spent. If you have taken the time to complete the renovation yourself or have completed sections yourself there cannot be any monetary allowance made for your own personal labour.

Similarly if you obtain a great deal on any plant and equipment items (for instance you obtain an oven that normally retails for \$3,000 for \$999 off the internet) you can only claim depreciation entitlements on the actual amount that you have spent.

## **Depreciation pre and post-renovating**

Prior to demolition or renovation, many investment property owners remain unaware that the existing assets within their property can be worth thousands of dollars. When these assets (e.g. carpet and hot water systems) are replaced or 'scrapped', owners may be entitled to claim them as tax deduction. Before you discard existing items or demolish your investment property, check to make sure you aren't throwing dollars away!

## **How does an investor benefit by scrapping?**

Scrapping of existing plant and equipment can provide additional tax credits for investors who demolish or dispose of existing buildings or any part of it which was owned as an investment asset and eligible to produce income.

To calculate the scrapping value if the existing written down value is not known, the quantity surveyor or client's accountant identifies the items that were removed or scrapped in the renovation process.

## **Why scrap items?**

There are several reasons why an item can be scrapped. These include:

- Obsolete;
- Functionally inadequate;
- Dated style;
- Original form was inappropriate or does not maximise the form and function of the property; or
- Additional value to the owner is obtained from a renovation.

To maximise a scrapping claim, focus should be given to items classified under Division 40 ('plant & equipment') as these items have the highest depreciation claim and often the greatest individual value.

It is important to note that a valuation of all items is required, including those to be retained and those to be scrapped in the refurbishment process, with adequate photographic records retained for evidence of justification.

The concepts outlined above can provide the property investor with a very attractive tool to maximise the tax benefits available from the refurbishment of an existing building in the future.

Many investors remain unaware that pre-renovation/demolition investment properties contain depreciation deductions. If you are unsure about your entitlements, contact a Quantity Surveyor before you start any renovation/demolition. You may be able to obtain thousands of dollars in depreciation deductions you never knew were available.

## 7. Using low-value pooling and immediate write-off to maximise depreciation deductions

### What is low-value pooling?

Low-value pooling is a way of depreciating plant items which cost less than \$1000 or have an un-deducted cost of less than \$1000.

The low-value pool is an effective rule allowing an increased depreciation deduction available to most investment property owners. Any asset in a rental property which costs less than \$1000 can be included in the low-value pool and written off at an accelerated rate of 18.75% in the first year of ownership and 37.5% each year thereafter.

The following types of depreciable assets can be allocated to a low-value pool:

- ✓ **Low-cost assets** – A low-cost asset is a depreciable asset that has an opening value of less than \$1000 in the year of acquisition.
- ✓ **Low-value assets** – A low-value asset is a depreciable asset that has a written down value of less than \$1000. That is, if the opening value of an asset is greater than \$1000 in the year of acquisition but the value remaining after depreciating over time is now less than \$1000. Assets meeting this classification are placed in an itemised pool.

You cannot allocate the following depreciating assets to a low-value pool:

- ✗ Assets for which you have previously claimed deductions calculated using the prime cost method.
- ✗ Assets that cost \$300 or less (you can claim assets under \$300 as an immediate deduction).

Pooling is used in conjunction with the diminishing value method to maximise deductions in the early years of ownership.

### Immediate Write-Off

The assets that fall under \$300 can be written off immediately – this option is called the 'immediate write-off'.

### How does the low-value pool affect items that are part of a set?

There is often confusion concerning assets which form part of a set when their total cost exceeds \$1000. For example, if a house has six sets of blinds, the cost will be around \$3000.



The total cost does not appear to qualify for the extra depreciation available in the low-value pool, however a Quantity Surveyor should still depreciate these blinds at the higher rate as they qualify as individual assets. Dividing \$3000 into six makes each blind worth around \$500. Therefore the blinds can be included in the low-value pool.

### Pooling for Multiple Owners

As discussed previously, legislation states that some assets within a standard investment property can be grouped together and written off at a higher rate. They qualify for these groups if their value falls below \$300 or \$1,000. The assets that fall under \$300 can be written off immediately (this option is called the 'immediate write-off') and assets that are \$1,000 or less are entitled to an accelerated depreciation rate of 18.75% in the year of acquisition and 37.5% per year thereafter (this option is called the '37.5% pool'). Both options will be affected based on the ownership structure. In a 50:50 ownership situation, items under \$600 can be written off immediately and items that are under \$2,000 can qualify for the 37.5% pool.

### Example

Three sisters decide to purchase an investment property together with a 1/3 share each. The property has a split system air conditioner at a value of \$2,600. Considering the 1/3 share, the individual value of the split system for each sister is  $33.3\% \times \$2,600 = \$867$ . This means that instead of depreciating at 20% under a normal diminishing method each year, it will qualify for the higher rate pool of 37.5% each year following the year of acquisition.

The table below shows how this extra deduction for the air conditioner will add up; It equates to a difference of \$176 per sister.

| Plant Item<br>(deduction per sister) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------------------|--------|--------|--------|--------|--------|
| Split System<br>without Pooling      | \$173  | \$139  | \$111  | \$89   | \$71   |
| Split System<br>with Pooling         | \$163  | \$264  | \$165  | \$103  | \$64   |

It is important to use a Quantity Surveyor who specialises in tax depreciation to ensure that your depreciation entitlements are maximised. It could mean the difference between thousands of dollars at tax time.

## 8. Pay As You Go Variations – Put Extra Money in Your Pocket Weekly!

An often overlooked way in which Investors can improve their weekly cash flow is through a pay as you go (PAYG) variation. The PAYG system is a method of tax collection that was introduced in July 2000 to replace previous versions of the same system, such as pay as you earn (PAYE).

PAYG instalments are a system for paying instalments towards your expected tax liability on your business and investment income for the current income year. A PAYG variation is an application to the ATO requesting that your employer reduce your weekly/fortnightly tax payments to reflect set deductions like depreciation on a rental property. In essence it is a way of decreasing the amount of tax you pay each fortnight to help with your week to week cash flow. Rather than a tax return at the end of the financial year, it is equivalent to receiving small portions of your return each week.

The flexibility this gives the Investor, combined with depreciation deductions identified by your Quantity Surveyor, can be of great help in managing investments and mortgage repayments.

Let's consider a hypothetical situation;

You have just purchased an investment property. If you were to take your potential tax return, including the extra deductions gained from your investment property, and divide it by 52 weeks, this would give you the approximate amount your tax is reduced by per week - creating the extra cash flow.

A Quantity Surveyor makes it even easier for you when you consider the extra tax deductions they are able to identify for an investment property. Talk to your accountant about PAYG variations and increase your weekly cash flow!

## 9. Frequently asked questions

There are varying scenarios which will qualify a property as an investment and therefore depreciation can be applicable. Some common topics related to depreciation are discussed below.

### **What if I rent out rooms or a granny flat?**

It is becoming increasingly popular for people to rent out a section of their own house, whether it's a room or an entire level. Additionally, more and more people are taking up the opportunity of using their current land and constructing granny flats to rent out. You can claim depreciation on the areas that you are renting out. A Quantity Surveyor can structure a report that will maximise the deductions for your particular circumstances.

### **Can you claim depreciation on furniture?**

Properties that are fully furnished at purchase or have been fully furnished since purchase attract significant depreciation. A Tax Depreciation report will identify each furniture asset, put a value on it and include it in your report. These assets can be seen within a completed Tax Depreciation Report and will add to the total deductions available which will increase your cash return.

### **What if I haven't claimed any depreciation before?**

While completing the depreciation report and then claiming as soon as you settle on an investment property is ideal, there are a number of people who have yet to unlock the depreciation potential of their investment property. A Tax Depreciation Report will commence from the date that you settled on the property, even if it was years ago. If you have rented the property the entire time from settlement you can make amendments to your previous tax return/s. This will allow you to recoup some of the depreciation that has been missed out on. You can then continue to use the report for future financial year claims.

### **Why can't I just use my purchase price?**

A BMT Tax Depreciation report outlines the tax deductions that you can claim on the property. This is based on the original construction cost of the property and the plant and equipment items currently in the property.

A purchase price includes items that are not depreciable and generally does not reflect the costs of the original construction. A purchase price will include items such as a component for the land value and the general market value (such as a premium for the location, general capital growth, etc). These items are not the basis of claiming depreciation and therefore the total depreciation claimable will be different from your actual purchase price of the property.

### **How long does it take to get my report?**

Unless there are other arrangements the first step is to organise an inspection on your property. We will liaise with your property manager and tenants to organise a time to do the inspection. This timeframe depends on availability of tenants etc, so guaranteeing a timeframe for this is difficult. BMT Tax Depreciation does, however, strive to achieve a turn around time of five working days after the site inspection has been completed. In general, a total of two weeks is all it requires to have the inspection completed and the report sent to you.

### **I lived in my property prior to renting it out, does this matter?**

You can only claim depreciation for the periods in which the property has been available for rent. The report will always commence from the settlement date as this is the date that the property legally became yours. BMT Tax Depreciation will then identify the date you made the property available for producing income. BMT will structure the report accordingly and provide a pro-rata calculation for the period it became a rental so your accountant does not have to work this out for you. So while the structure of the report changes slightly due to the property having been lived in, this is not an issue and there are still depreciation entitlements to be claimed.

### **Is my depreciation report a valuation?**

A common tax depreciation misconception is that a tax depreciation report will provide the market valuation of an investment property or that the purchase price of the property is the actual amount that is depreciated. A market valuation is a report or figure provided by a valuer to show the potential sale price of a property at any particular point in time. A market valuation is the price at which an asset will generally trade at (sell for) and will include and take into consideration the building, land, recent sales and general market conditions at the time. Additionally an investor's purchase price of a property includes amounts such as land value and general market value. These assets are not depreciable in a tax depreciation report.

By comparison, a tax depreciation report provides a value for only the eligible assets of a property and provides an estimated construction value for the building at the time it was completed. For example, a house built in 1990 and located near water may have a sale price of \$800,000. This is its current market value. For depreciation purposes a tax depreciation report will be based upon the construction cost of the property in 1990 and this value will be different. This value will then be depreciated each year from 1990.

### **How long will my report last?**

From the date of construction completion, the ATO has determined that any building eligible to claim depreciation has a maximum effective life of 40 years. Therefore, investors can

claim up to 40 years depreciation on a brand new building, and the balance of the 40 years from construction completion is claimable on an older property.

If any renovations have occurred on structural elements of the building, then from the date of completion of the renovation the report will show the deductions for 40 years.

For example, if renovations occurred in 1995, a BMT Tax Depreciation report will show you the deductions available through to 2035 (40 years).

### **Why use a quantity surveyor?**

Quantity Surveyors are one of the few professionals recognised by the ATO to have the appropriate construction costing skills to calculate the cost of items for the purposes of depreciation. BMT also prepares cost plan estimates for all types of buildings. This ensures we have the complex skills and data required to accurately estimate construction costs. Construction costs are estimated in today's market and historically written-down to the year of construction using yearly cost indices.

By using a team of quantity surveyors, like BMT Tax Depreciation, who specialise in property tax depreciation, you can have peace of mind that you are getting a depreciation report that maximises your deductions.

## 10. What is in a BMT Tax Depreciation Report?

Many investment property owners remain unaware of the benefits that tax depreciation provides. There are usually thousands of dollars to be claimed in depreciation deductions on any investment property. Generally, the newer the property, the more deductions there are to be claimed. However, older properties can still obtain deductions. Deductions can be claimed on both the building structure and the plant and equipment items contained within it.

BMT Tax Depreciation will:

1. Visit the site and carry out a detailed inspection of the property including identifying, measuring and costing items/plant,
2. Compile the necessary detailed records and photographs for future substantiation of the claim with the Australian Tax Office (ATO), observing Tax Ruling TR 97/25, and
3. Examine all available documents associated with the property; determine the extent of their usefulness for the purpose of the claim, and have the report completed within 7-10 days after the site inspection.

### **What is in a BMT Tax Depreciation report?**

A detailed document is prepared for the building which will include the following components:

1. Summary of the different depreciation methods so your accountant can pick the best one for you. This includes the Diminishing Value Method and Prime Cost Method of depreciation;
2. Detailed 40-year forecast table listing all depreciable items together with building write-off for both Prime Cost and Diminishing Value methods;
3. Comparative table of the two methods of depreciation;
4. The report is pro-rata calculated for the first year of ownership based on the settlement date so that the accountant has the exact depreciation deductions for each year.

The tax depreciation report provides the basis for claiming both Division 40 (plant and equipment) and Division 43 (capital works allowance). BMT Tax Depreciation specialises in maximising the total depreciation available from a given property under current legislation.

## 11. BMT – A Specialist Quantity Surveyor

Since we started in 1997, BMT Tax Depreciation has completed tens of thousands of property depreciation reports for investors Australia wide. Our traditional background in construction costing has provided our tax depreciation team with the knowledge and expertise to be able to maximise our clients' depreciation claims. We constantly liaise with the Australian Taxation Office (ATO) to utilise current legislation to your advantage.

BMT Tax Depreciation specialise in just that – Tax Depreciation! This enables us to concentrate purely on maximising each investors claim. Each report is tailored upon an investor's individual scenario, settlement date and purchase price. The report is structured to recoup missed deductions – you can go back and amend/claim missed deductions for 2 financial years. BMT reports project depreciation deductions for 40 years, the life of the property. Every report projects detailed calculations for 20 years (not just a summary) which helps accountants update reports with replaced assets in later years. We include additional works or additional plant and equipment items that are added to the property after purchase.

BMT Tax Depreciation use low value pools to maximise deductions. The low-value pool is an ATO rule allowing an increased depreciation deduction available to most investment property owners. Any asset in a rental property which costs less than \$1000 can be included in the low-value pool and written off at an accelerated rate of 18.75% in the first year of ownership and 37.5% each year thereafter. BMT also utilise the pooling rule for assets that depreciate down under \$1000, so as assets qualify for the low value pool at a later date we increase their depreciation rate to 37.5% which will increase deductions in later years.

If you have occupied your investment property for a period of time, BMT are able to delay claiming low value pooled assets until the property becomes income producing. Effectively this minimises the deductions while the property is not income producing and maximises the deductions as soon as a depreciation claim is available when the property is producing income.

Where the property is owned by more than one person, BMT Tax Depreciation can provide a 'split report' where we work out the depreciation deductions available to each owner. This will simplify the process for accountants when dealing with multiple owners. Utilising appropriate tax legislation to complete this 'split report' will result in higher deductions than if the deductions are simply divided by the number of owners.

BMT Tax Depreciation has built its reputation on a strong foundation of focusing on our clients expectations and exceeding them. We have many strong alliances with some of Australia's largest property and accounting groups, one of these being our association with the NTAA



(National Tax and Accountants Association). The NTAA screened a number of quantity surveying firms products, BMT Tax Depreciation was found to provide a cost competitive product coupled with a high level of client satisfaction. It was also found that BMT Tax Depreciation offered an easy to follow and accurate report, with an Australia wide service. The NTAA are one of Australia's largest Accounting Associations with over 7,000 member firms.

BMT Tax Depreciation are also Registered Tax Agents - Recent changes to the Tax Agent Services Act has resulted in Quantity Surveyors needing to be registered as Tax Agents as they are seen to be giving tax advice through the production of tax depreciation and capital allowance reports. BMT's tax agent number is 53712009.

We take a personalised approach to each report to ensure quality. Our site inspectors are fully trained depreciation specialists – we use BMT staff only, not contractors, which is important in the event of an ATO audit. We do not jeopardise quality in order to offer a cheaper fee.

# Thank you for reading The BMT Tax Depreciation Handbook

If you would like further details on any of the information provided in this document, please do not hesitate to contact our office on 1300 728 726 or your local office on:

**Sydney 02 9241 6477**  
**Brisbane 07 3221 9922**  
**Melbourne 03 9654 2233**  
**Adelaide 08 8231 1133**  
**Newcastle 02 4978 6477**  
**Canberra 02 6257 4800**  
**Perth 08 9485 2111**  
**Gold Coast 07 5526 3520**  
**Cairns 07 4031 5699**  
**Hobart 03 6231 6966**  
**Darwin 08 8941 3115**

Alternatively, visit our website:

[www.bmtqs.com.au](http://www.bmtqs.com.au)

