

STS TAX TALK

Volume 46
November 2009

We hope you find the latest copy of our newsletter as informative as our others and a valuable tool in your wealth creation!

The following Articles are provided by BMT Tax Depreciation Pty Ltd.

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ARE YOU THE owner of an investment property?

Are you maximising the tax depreciating and capital allowance benefits available?

All types of income producing properties have substantial taxation benefits available to be claimed as a tax credit. Many property investors are missing out on literally thousands of dollars in lost tax depreciation deductions.

Both new and old properties will attract some depreciation benefit that the owner is able to claim as a tax credit. A common myth is that older properties will attract no claim. Therefore it is worth making an enquiry about any property.

When a property owner has not been claiming deductions for tax depreciation, previous financial years tax returns can be amended. The Australian Taxation Office (ATO) allows for up to the previous two year returns to be amended, in some instances the ATO may have to pay you money back!

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ARE YOU THE owner of an investment property? (continued).

The depreciation benefit available depends greatly on the type of building, its age, use and fit out. Based on the Diminishing Value method of depreciation, the following scenarios are provided as an appropriate guide:

Building Type	2 BR Unit	Townhouse	Residential House	Commercial Building
Purchase Price	\$400,000	\$300,000	\$375,000	\$2,500,000
Year 1 Depreciation	\$12,000	\$7,000	\$8,000	\$100,000
Year 1-5 Cumulative Depreciation	\$50,000	\$30,000	\$32,000	\$450,000

The maximisation of a depreciation claim on any building requires a combination of construction costing skills and an excellent knowledge of Tax Legislation. This rare combination of skills has resulted in a select number of quantity surveying firms specialising in property depreciation.

Quantity surveyors are recognised by the Australian Taxation Office to be appropriately qualified to estimate building costs for the purpose of depreciation. Your accountant should recommend a specialist to complete such a report, to maximise the depreciation benefits from your property.

Property Tax Allowances: The Basics

The Key To Profiting From Your Property Investment

Many property owners are losing potential tax credits by failing to take full advantage of a property's tax depreciation potential. An often overlooked method of obtaining tax credits, property tax depreciation is available to any property owner who obtains assessable income by way of rent or operates a business from a property.

Some of the key points regarding depreciation of investment properties include;

- ⇒ Any building irrespective of age will attract some claim for depreciation with respect to the plant & equipment items contained within the property including air conditioning, carpets, light fittings, etc;

Property Tax Allowances: The Basics

The Key To Profiting From Your Property Investment

- ⇒ As a general rule any property constructed after 18 July 1985 (residential) and 19 July 1982 (non-residential) is eligible for the construction write off allowance;
- ⇒ Any property having had additions or refurbishments undertaken after 17 July 1985 (residential) and 19 July 1982 (non-residential) may be eligible for a construction write off allowance;
- ⇒ All external works including fencing, paving, pergolas, garden sheds etc constructed after 26 February 1992 will attract the building write off allowance;
- ⇒ Depreciation and capital allowances can be backdated/amended for up to two years if previously unclaimed or not maximised.

The depreciation potential of an individual building will differ greatly depending on its age, use and original construction cost. The maximisation of a depreciation claim on any building requires a unique combination of construction costing skills and experience combined with an intimate knowledge of the Income Tax Assessment Act 1997.

Engaging a specialist to maximise depreciation is beneficial at a number of stages in the property life cycle including;

- ⇒ purchase of an existing building;
- ⇒ completion of a new building; and
- ⇒ professional assessment of currently held property.

Quantity Surveyors are recognised by the Australian Tax Office under TR 97/25 as appropriately qualified to estimate construction costs of a building for tax purposes. In addition to this Australian Tax Office requirement, we specialise in **maximising** depreciation deductions for investment property owners.

Improve your cash flow in 2009

Property Market Improves

Lower interest rates have meant the stress has been significantly reduced for many property owners in the last few months. A number of factors have influenced the property industry recently, mainly due to the global economic downturn:

Official interest rates fall to the lowest levels in years;

The share and commodity markets have deteriorated, resulting in many investors pulling their money out;

In October 2008, the federal government offered the First Home Owner's Boost (FHOB) – an increase to the First Home Owner's Grant (FHOG). The grant was increased from \$7,000 to \$14,000 (for homes purchased) and \$21,000 (for new homes built). The FHOB applies to contracts entered into on or after 14 October 2008 and on or before 30 September 2009, then from 1 October 2009 and 31 December 2009, \$10,500 for homes purchased and \$14,000 for new homes built;

Improvement in housing affordability in many areas; and

Demand for rental properties remains high, resulting in rent increases and improved property yields.

While investment property owners won't be getting any benefit from the FHOG increases, those with variable interest rates will be enjoying lower repayments.

Want Even More Money in Your Pocket This Year?

Obtaining a depreciation report that maximises deductions may result in your investment property returning a positive income. Qualified under tax legislation TR97/25 to estimate construction costs for depreciation purposes, Quantity Surveyors are one of a select few professionals who specialise in providing depreciation reports. The importance of obtaining a depreciation report from a Quantity Surveyor can not be underestimated. BMT Tax Depreciation focus purely on maximising the depreciation deductions from investment properties. By taking the hassle out of depreciation, we save the investor and accountant time and money.

Improve your cash flow in 2009 (continued).

BMT Tax Depreciation Reports – Continuous Improvement

As part of our continuous improvement plan, BMT Tax Depreciation has recently introduced an improved tax depreciation report. The new report aims to improve the ease of use for accountants and investors. The following additions have been made:

1. Effective life and pooled assets calculation – The BMT Tax Depreciation Report now provides a total of the Division 40 effective life and pooled assets.

This is useful when entering total plant and equipment into accounting software - saving the accountant/investor time and money.

2. Pro-rata calculation – An automatic pro-rata calculation will be used when the property is lived in. This is displayed on the property information page and will include both Division 40 plant and equipment and Division 43 capital works allowance. This will show an automatic calculation of the partial financial year that the property is available for rent.

3. Display of effective lives - The effective lives will now be displayed for each asset in the report. This can be used when entering into some accounting software speeding up the process, saving time and money. It is important to obtain a Tax Depreciation Report from a reputable company that will maximise your depreciation deductions. It may mean the difference between thousands of dollars each financial year.

The BMT Tax Depreciation Difference

BMT Tax Depreciation constantly liaise with the ATO to utilise current legislation to your advantage. The BMT points of difference include:

- ⇒ Double our Fee Guarantee - you will receive at least double our fee worth of deductions in the first full financial year claim, or there will be no charge for our services.
- ⇒ BMT Tax Depreciation take a personalised approach to each report to ensure quality.
- ⇒ We do not jeopardise quality in order to offer a cheaper fee.

Improve your cash flow in 2009 (continued).

- ⇒ BMT Tax Depreciation specialise in just that – Tax Depreciation! This enables us to concentrate purely on maximising each investors claim.
- ⇒ We apportion relevant preliminaries and consultants fees. These can be attributed to items of plant and equipment giving them a higher depreciable value and more tax deductions for our clients.
- ⇒ Our site inspectors are fully trained depreciation specialists – we use BMT staff only, not contractors.
- ⇒ BMT reports project depreciation for 40 years, the life of the property. Every report projects detailed calculations for 10 years (not just a summary) which helps accountants update reports with replaced assets in later years

If you are looking to purchase an investment property this year, it is important to think about the property's depreciation potential when considering the purchase. Depreciation deductions alone may make the property purchase more feasible.

Get the most out of your investment property in 2009 and every year after that. Contact BMT Tax Depreciation today!

Older Properties and Depreciation

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) and 20 July 1982 (non-residential) can not claim the capital works allowance as a deduction. This often results in the investor not thinking to obtain a depreciation report as they believe that their property is too old. However it is worth enquiring about **any** property - even one that is 100 years old!

Older Properties and Depreciation (continued).

In the case of older properties, it is worth noting that 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.



Even if a property is too old to claim the capital works allowance for the building structure, the investor will still be eligible to claim the plant and equipment allowance.

Additionally, if extensions or renovations were completed after 1982 (non-residential) or 1985 (residential), they will attract the capital works allowance.

What types of plant and equipment items can be claimed?

Many plant and equipment items contained within a property are able to be depreciated over their effective lives. Some of these items include:

- hot water service
- ceiling fans
- dishwasher
- carpet
- blinds
- exhaust fans
- washing machines
- cooktops
- ovens
- floating timber floors
- rangehood
- smoke alarms
- air conditioner
- light
- shades
- microwaves
- vinyl
- furniture
- package
- clothes
- dryer
- freestanding spa
- curtains
- security systems

Older Properties and Depreciation (continued).



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.

Renovate and Depreciate

When purchasing an older investment property, many investors decide to renovate the property after settlement. Investors can often claim thousands of dollars in deductions when renovations are done. The following case study highlights how it worked for one investor.

Case Study

Jim purchased a 60 year old 3 bedroom townhouse in Paddington. In its pre-renovation condition, the house contained carpet, vinyl, blinds, an air conditioner, old stove, hot water service and light fittings. Upon his accountant telling him about the potential depreciation deductions available in old, pre-renovated properties, Jim decided to contact BMT Tax Depreciation to enquire about a scrapping report before he started any work on the property. BMT visited the site and conducted a full site inspection, taking note of all the items that could be 'written off' before they were thrown out. The following deductions were obtained:

Renovate and depreciate (continued).

Item	Depreciation Obtained
Air-conditioning Unit	\$600
Blinds	\$600
Carpet	\$2,500
Hot Water Service	\$420
Light shades	\$300
Stove	\$350
Vinyl	\$1,500
Total	\$6,270



Jim then took the BMT report to his accountant and claimed \$6,270 in depreciation deductions that year in his personal tax return. Over the following 12 months, Jim completed his renovations, including an extension at the rear of the property. He again contacted BMT Tax Depreciation to come and assess the renovated property to achieve the maximum depreciation deductions. BMT Tax Depreciation were able to complete a second report for Jim, taking into consideration all new additions (stainless steel oven, cooktop and rangehood, new carpet, air conditioning unit, etc) as well as calculating the construction write off allowance now available on the extension.

Both Jim and his accountant were impressed with the total depreciation claim on the scrapped assets and renovated property of \$16,000 in the first year alone!

How is Scrapping Calculated?

The first report prepared by BMT Tax Depreciation is undertaken prior to any renovation or refurbishment. BMT Tax Depreciation prepares a report identifying the value of all plant and equipment and qualifying capital expenditure contained within the property.

A second report is then prepared by BMT Tax Depreciation after completion of the renovation, identifying the value of all new plant and equipment and capital expenditure within the property. The assets within the building that are no longer present can be written off immediately. Scrapping is a complicated process that requires the expertise of a specialist Quantity Surveyor, like BMT Tax Depreciation, in conjunction with your accountant.

Renovate and depreciate (continued).

Many investors remain unaware that pre-renovation/demolition investment properties contain depreciation deductions. If you are unsure about your entitlements, contact BMT Tax Depreciation before you start any work on your property. We may be able to obtain you thousands of dollars in depreciation deductions you never knew were available!

Four year holding rule for forestry miss to be amended

The Government will amend this four-year holding period rule for forestry MISs to ensure that it cannot be failed for reasons genuinely outside an investor's control.

CHRISTMAS WISHES

We would like to take this opportunity of wishing all our clients and their families a Merry Christmas and health, wealth and happiness for 2010.



OFFICE CLOSURE

Please note our office will be closed from Friday 18th December 2009 until Monday 11th January 2010.



"Dependent people need others to get what they want. Independent people can get what they want through their own efforts. Interdependent people combine their own efforts with the efforts of others to achieve their greatest success". Stephen Covey

STS complimentary mentoring program on offer to our clients:

Access to the STS website containing:

- * Spreadsheets and information worth \$1000's to help you maximize your tax deductions
- * Pro-formas that assist you in preparing documentation to help bullet proof you from a tax office audit
- * Newsletters designed specifically for our clients
- * MP3 files of our recent teleconferences, for download
- * Personalised Tax Data Collection form

Other complimentary services we offer:

- * We conduct a free review on your prior year's tax return
- * You are able to partake in our teleconferences – ask any general questions, suggest topics to be covered, hear expertise to help in your wealth creation process.
- * You can attend our FREE annual seminar

Feedback

As you are a valued client, we appreciate your ideas on how we can better meet your expectations. If you would like a topic covered please let us know. We look forward to any comments or suggestions you may have—please contact us on stsadmin@superiortax.com.au.

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creation team***



Up-to-date Details

Please make sure your contact details are up-to-date as we will be sending private and personal information to you by email and post.

This newsletter is not specific advice for your personal situation. Please do not act solely on the content of this newsletter. Please seek professional advice before proceeding.