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UNIT 17

4 WEDDELL COURT

LAVERTON NORTH

Tax Depreciation and Building Allowance Report

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Tax Depreciation and Building Allowance Report

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The information herein has been prepared from recent reference materials issued, including publications from the Australian Institute of Quantity Surveyors, and the Australian Taxation Office. S.J. Foley & Associates recommends that all depreciation claims be agreed between the taxpayer and their financial advisor / taxation consultant, and we issue no invitations to anyone who rely on this document and intends by this disclaimer to exclude liability for such opinions, statements, analyses and forecasts (including liability for negligence).

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Tax Depreciation and Building Allowance Report

1. EXECUTIVE SUMMARY

A special system of tax deductions applies to investment units or properties purchased by individuals or companies after 26th February 1992.

As a quantity surveying company, we have prepared this tax depreciation and building allowance report, based upon the enclosed schedule of costs for the construction of the following property:

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and sub-divided the costs into relevant categories for tax depreciation purposes.

With recent changes to the depreciation and tax laws, the depreciation position of a property, can vary according to different classifications, as defined by the taxation department. We have presented two separate schedules for the depreciation position of the unit.

One schedule defines the ownership as an employee or rental property owner, the other schedule defines the ownership as a small business, and therefore has access to accelerated rates of depreciation. We strongly urge people to confirm the status of their classification with their accountant and advise us if the depreciation rates need to be amended accordingly.

The tax department have issued revised "*effective life*" values within tax ruling TR 2000/18, which has been used in the calculation of the Rental Property Ownership schedule.

Therefore the tax schedules are based upon:

- small business ownership
 - non small business ownership
- IT 2685 accelerated rates of depreciation
effective life as noted in TR 2000/18

The report details the following depreciation and building allowance claims for a six year period, for the above development as an investment property:

<u>Year</u>	<u>Small Business</u>	<u>Non small business</u>
1	\$5,542	\$4,751
2	\$4,670	\$4,560
3	\$4,230	\$4,153
4	\$3,892	\$3,849
5	\$3,630	\$3,617
6	\$3,428	\$3,439

and is based upon a depreciable value of \$119,700 being the cost of the construction work applicable to depreciation purposes.

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2. BASIS OF TAX DEPRECIATION REPORT

This Tax Depreciation Report has been prepared upon the Diminishing Value method of depreciation, which automatically applies unless the client makes the decision to adopt the prime cost method.

The rates of depreciation are now permitted to be calculated by each individual taxpayer based on the effective life of the property. This basis is permitted under recent changes announced by the Treasurer to the Taxation Legislation. This report has been based upon the Rates of Depreciation and Effective Life calculations, as determined by the Commissioner of Taxation in accordance with Ruling IT 2685. Taxpayers may elect to amend the rates to suit their own circumstances, and category of operation as either being a:

- **small business taxpayer**
- **non small business taxpayer**
- **non business taxpayer**

In addition, the balance of the works that are not subject to accelerated rates of depreciation that form part of the cost for the construction, are able to be written off at an annual rate of 2.5% per annum.

It is important when considering the depreciable position of a property, to note the following items:

- 1. substantiation and proof of actual costs of depreciable items may be required by the Taxation Department.**
- 2. capital gains tax and its effect thereupon**
- 3. depreciation law - taxation amendments**
- 4. cost of purchase price relative to its construction cost**

With respect to the construction costs used in the preparation of the depreciation report the following items should be noted:

1. all costs are based upon the schedule of costs associated with the construction of the development, refer to the applicable section within this report
2. land, landscaping, demolition works and site clearance costs have been excluded from the depreciable items, as they are not depreciable

Should this schedule be required to be amended to reflect a position different, please contact us immediately.

Depreciation, and building allowance claims are only allowed, from the date at which the property becomes an income producing entity.

Finance costs are not included in the calculations.

It is recommended that the final depreciation claim and any other taxation matter therein, for each property be discussed and agreed between the client and their respective accountant/advisor.

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3. RECENT AMENDMENTS TO DEPRECIATION LEGISLATION

The Government has recently announced a series of amendments to the overall Taxation Legislation. These will have an impact on not only the introduction of a Goods and Services Tax, but depreciation.

For the purposes of depreciation to all capital purchases for residential and commercial / business purposes, there are now three categories of taxpayers:

- **small business taxpayer**
- **non small business taxpayer**
- **non business taxpayer**

A 'small business' is one that is defined as having a three year turnover of less than \$1.0 million, who shall retain access to accelerated depreciation until 1/7/2001.

For 'non small business and non business' taxpayers, items acquired after 21/9/99, will be subject to rate of depreciation based upon the item's effective life. If the effective life of an asset alters because of technology or market developments, a tax payer may adjust the depreciation rate. This means that if the asset is expected to have a shorter effective life than originally anticipated, the rate of depreciation may be increased from the time of the reassessment.

As from 1/7/2000, the full write off of items below \$300 will be replaced by a "pooling" method. That is all items less than \$1,000 may be added to form a pool, which shall be depreciated on a diminishing value basis of 37.5 per cent. Except that in the first year of acquisition of an item regardless of its purchase, the rate of depreciation will only be 18.75 per cent. Small business taxpayers will be exempt from this ruling.

From 21/9/99 the balancing charge will be removed. This arises when an asset is disposed of for a price greater than its written down value. When this occurs, the difference is included in the assessable income, because effectively, it has been determined, that excess depreciation deductions have been allowed. Small business taxpayers will also be exempt from this ruling, and where the disposal of the item occurred involuntarily.

Previously, if an item which had been sold at a price greater than its cost as adjusted by movements in CPI, the profit was subject to capital gains tax. From 21/9/99 the excess of disposal proceeds over the frozen indexed cost base at 30/9/99, will be taxed as normal income.

Non business taxpayers and landlords will also no longer qualify for accelerated depreciation. Instead such people will be required to determine the effective life of items and then ascertain the relevant depreciation rate.

It would appear that the taxpayer can still elect to utilise the effective rates as published by the Australian Taxation Office, or self - assess based upon the effective life based on the expected life of the environment.

Taxpayers deciding to self assess will be required to disclose all the information of the tax returns, which will enable the Australian Taxation Office to audit the returns.

This position therefore creates a dilemma for third parties preparing depreciation schedules, as they may not be aware of the particularly circumstances that the tax payer operates under.

The tax department has released the revised *effective life* assessments under tax ruling TR 2000/18, which has been used in the preparation of the rental property tax schedule.

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4. SCHEDULE OF COSTS FOR DEPRECIATION PURPOSES

Please refer to the following schedule of costs, which has been used for depreciation purposes of the facility.

Should there be any adjustment necessary for the scope of works included, please don't hesitate to contact us so we can amend the schedule.

This estimate has been prepared from the following information:

- design and costing information provided by the developer

Should there be any requirements to adjust the scope of works, please advise us.

The depreciation calculations for the rental property investor are based upon:

- $\text{depreciation} = \text{cost} \times (365/365) \times 200\% / \text{effective life}$

Where:

cost	estimated cost of the plant / asset
365	number of days in the year owned
effective life	as per taxation ruling

if the claim is not for the full year period, then the 365 days within the above are adjusted accordingly

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4. SCHEDULE OF COSTS FOR DEPRECIATION PURPOSES

<u>a) estimated construction cost for depreciation</u>				
UNIT 17 construction cost estimate				\$119,700
				\$119,700
<u>b) estimated cost of depreciable items</u>				
> Fire services - suppression and detection	Item			\$1,800.00
> Plumbing - staff amenities	Item			\$1,200.00
> Switchboard	no	1	\$900.00	\$900.00
> Hot water service	no	1	\$1,000.00	\$1,000.00
> Light fitting	Item			\$5,400.00
> Ventilation systems	Item			\$1,400.00
> Fire extinguisher	no	1	\$300.00	\$300.00
Estimated cost of depreciable items				\$12,000.00

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5. TAX DEPRECIATION SCHEDULE

We enclose for your attention the following TAX DEPRECIATION SCHEDULE

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This schedule has been based upon a depreciable value of \$119,700 being the cost of the construction works applicable to depreciation purposes.

If the scope needs to be amended, please contact us.

We have based this assessment upon a full twelve months period.

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Non Small Business - No access to accelerated rates of depreciation

Description	Effective life	Total Cost	Year 1 Depreciation	Year 2 Depreciation	Year 3 Depreciation	Year 4 Depreciation	Year 5 Depreciation	Year 6 Depreciation
Total Depreciable Value		\$119,700						
Fire services - suppression and detection	10	\$1,800	\$360	\$288	\$230	\$184	\$147	\$118
Plumbing - staff amenities - fittings	20	\$1,200	\$120	\$108	\$97	\$87	\$79	\$71
Fire extinguisher - below \$1,000 in value	37.50	\$300	\$56	\$91	\$57	\$36	\$22	\$14
Switchboard - below \$1,000 in value	37.50	\$900	\$169	\$274	\$171	\$107	\$67	\$42
Hot water service	15	\$1,000	\$133	\$116	\$100	\$87	\$75	\$65
Light fittings	10	\$5,400	\$1,080	\$864	\$691	\$553	\$442	\$354
Carpet flooring	6	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Demountable partitions	10	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lift service	20	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Joinery - staff amenities	20	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mechanical ventilation	20	\$1,400	\$140	\$126	\$113	\$102	\$92	\$83
Airconditioning	10	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation Provision		\$12,000	\$2,058	\$1,867	\$1,461	\$1,156	\$925	\$746
Building Allowance - post 15/9/87*	2.50	\$107,700	\$2,692	\$2,692	\$2,692	\$2,692	\$2,692	\$2,692
Total Claim			\$4,751	\$4,560	\$4,153	\$3,849	\$3,617	\$3,439

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Small Business - access to accelerated rates of depreciation

Description	Diminishing Value %	Total Cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
			Depreciation	Depreciation	Depreciation	Depreciation	Depreciation	Depreciation
Total Depreciable Value		\$119,700						
Fire services - suppression and detection	20.00	\$1,800	\$360	\$288	\$230	\$184	\$147	\$118
Plumbing - staff amenities - fittings	30.00	\$1,200	\$360	\$252	\$176	\$123	\$86	\$61
Fire extinguisher - below \$1,000 in value	100.00	\$300	\$300	\$0	\$0	\$0	\$0	\$0
Switchboard - below \$1,000 in value	30.00	\$900	\$270	\$189	\$132	\$93	\$65	\$45
Hot water service	20.00	\$1,000	\$200	\$160	\$128	\$102	\$82	\$66
Light fittings	20.00	\$5,400	\$1,080	\$864	\$691	\$553	\$442	\$354
Carpet flooring	40.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Demountable partitions	20.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lift service	20.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Joinery - staff amenities	20.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mechanical ventilation	20.00	\$1,400	\$280	\$224	\$179	\$143	\$115	\$92
Airconditioning	25.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation Provision		\$12,000	\$2,850	\$1,977	\$1,538	\$1,199	\$938	\$735
Building Allowance - post 15/9/87*	2.50	\$107,700	\$2,692	\$2,692	\$2,692	\$2,692	\$2,692	\$2,692
Total Claim			\$5,542	\$4,670	\$4,230	\$3,892	\$3,630	\$3,428

Project: 6494