



Humby Property Consultants

Quantity Surveyors

Building & Construction Economists

PO Box 381

Newcastle NSW 2300

Phone: 02 4942 4422

Fax: 02 4942 4421

Email: mhumby@bigpond.net.au



Humby Property Consultants

Quantity Surveyors

Property Tax Allowances Schedule

For the Construction of

**Lot 8 - Unit 1.01 The Observatory Resort William Street
Port Macquarie NSW**

August 2004

File #: 20420

Prepared for:

Thornet Pty Ltd

Contents

1.	Introduction	1
2.	Methodology	2
3.	Expenditure Analysed	5
4.	Diminishing Value Depreciation Schedule	6
5.	Prime Cost Depreciation Schedule	8
6.	Low-Value Pool Schedule	10
7.	Division 43 Capital Works Schedules	13
8.	Summary	16
9.	Reconciliation of Expenditure	17
10.	Ten Year Tax Allowance Flow	18
11.	Disclaimer	19
Appendix		
12.	Low-Value Pool Adjustments	20

Humby Property Consultants

Property Tax Allowances Schedules

1. Introduction

1. Property Tax Allowance Schedules have been prepared for the construction of the subject property following instructions from Jason DeVos on behalf of Thornet Pty Limited.
2. Humby Property Consultants have been engaged in our capacity as Quantity Surveyors as per TR 97/25 to provide independent analysis of the capital allowances available under the Income Tax Assessment Act 1997 (ITAA 1997).
3. As the owner acquired this property after 1 July 1997, this assessment is based on the Income Tax Assessment Act 1997 and the following allowances have been evaluated:
 - Capital allowances for expenditure on plant in accordance with Division 40 of ITAA 1997
 - Capital works deductions on structure and infrastructure in accordance with Division 43 of the ITAA 1997.
4. This report quantifies the capital allowances available to the taxpayer for the first 10 years of ownership. Information provided in this report will allow the taxpayer to complete the ATO requirements for claiming depreciation on property in terms of the annual adjustments to the low value pool.
5. Under Division 40 of the ITAA 1997 a taxpayer has to choose between the diminishing value method and the prime cost method of depreciating plant. This report provides schedules for both options and the Appendix provides the yearly adjustments to the low value pool for each option.
6. Having elected a method of depreciating plant, it is not possible to change methods through the ownership of the property.
7. Due to an ATO Interpretative Decision being published on the 30 October 2002 we have excluded distribution and switch gear, light fittings and signage from the schedule of depreciable plant and included them in the capital works schedule. Case law suggests that these items could be claimable as depreciable plant but we have not taken an aggressive approach on your behalf. Interpretative decisions are not law and are neither legally nor administratively binding on the Commissioner but they are indicative of the Commissioner's view on the interpretation of the law on particular issues.

2. Methodology

1. This report is based on legislation in effect at the time the asset was acquired and the date this report was produced. The report is based on Humby Property Consultants interpretation of the ITAA 1997, tax cases and tax rulings and our understanding of the Commissioner of Taxation's intentions.
2. Taxation legislation is subject to amendment and re-interpretation. We recommend that you obtain your accountant's opinion on those aspects of the report which deal with definition of depreciable items and the rates used in connection therewith.
3. The preparation of these schedules has been based on the following:
 - Date of commencement of construction: November 2002
 - Date of completion of construction: 13 May 2004
4. For the purpose of this report the property was inspected on 12 July 2004 and a detailed analysis was completed. The analysis included identification, measurement and establishment of use of plant and structure. This incorporated compiling a full photographic record of the property to substantiate the existence of the assets.
5. The construction cost of this asset is apportioned between the following categories:
 - Plant
 - Building Structure/Infrastructure
 - Non-Eligible Items
6. This report is based on the information available to us at the time of preparation and has been prepared on the understanding that all items of plant listed in the schedules are owned by the taxpayer. If there are any additions, disposals or changes in ownership of any items, please contact Mark Humby of this office.

Humby Property Consultants

Property Tax Allowances Schedules

2.1. Plant

1. The valuation of plant has been based on a reasonable attribution of the overall capital expenditure as provided for in Section 40-195 ITAA 1997.
2. The effective lives used in calculating depreciation rates are taken from TR 2000/18 and the subsequent Income Tax (Effective Life of Depreciating Assets) Amendment Determinations.
3. The depreciation rates adopted in these schedules are in accordance with the legislation in force at the time of acquisition.
4. As allowed for in the ITAA 1997, assets acquired after 1 July 2000 with a cost under \$1,000 can be included in a low-value pool to accelerate their depreciation. They are depreciated at a rate of 18.75% over the whole first year using the diminishing value method. In future years, these assets are depreciated at 37.5% under the diminishing value method. See Section 12 of this report for further explanation of the Low-value pool and how utilising it can further improve a taxpayers cashflow.
5. Our schedules are based on the understanding that the owner of the property is not a small business taxpayer.

2.2. Building Structure & Infrastructure

1. Depending on the date the building commenced construction, a capital allowance deduction for building structure will be available under Division 43 of the ITAA 1997 for a maximum of 40 years after construction completion.
2. The allowances are calculated from the historical cost of construction having deducted non-qualifying expenditure, and notionally depreciating the qualifying expenditure to the date of settlement in accordance with Division 43 of the ITAA 1997.
3. The Division 43 Capital Works Deductions have been based on the actual historical construction cost as advised which has been tested for accuracy against our knowledge of historical costs.
4. The prime cost rates for deductions for capital works are 2.5% or 4% and are determined by the type of building and the date of commencement of the building works. For this property the following rates have been used:
 - 2.5% for building works as described in 43-25, 43-75, 43-90 and 43-140 of the Act and which commenced construction after 15 September 1987.
 - 2.5% for external works which qualify as structural improvements as described in Sections 43-20 and 43-140 of the Act, and which commenced construction after 26 February 1992.

2.3. Non-Eligible Expenditure

1. Non-eligible expenditure includes the proportion of the construction price relating to:
 - Capital non-deductible items of expenditure including landscaping

3. Expenditure Analysed

1. This report is based on the following expenditure:

Construction cost	\$371,693
Stamp duty	Not Applicable
Total Expenditure Analysed	<u>\$371,693</u>

2. Historical construction cost has been advised for the entire complex. We have calculated the construction cost for this lot in the year the property was constructed as \$371,693 based on applying the lot entitlement to the construction cost of the entire development. The eligible Division 43 Deductions for capital works have been calculated from that total by excluding non-qualifying expenditure.
3. The lot entitlement for this lot is 1,777 out of 100,000.

4. Diminishing Value Depreciation Schedule

**Capital Expenditure incurred on depreciable plant
for the construction of
Lot 8 - Unit 1.01 The Observatory Resort William Street
Port Macquarie NSW**

Prepared for:
Thornet Pty Ltd

Humby Property Consultants

Property Tax Allowances Schedules

Diminishing Value Depreciation Schedule for the Construction of

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

Capital Expenditure Incurred Upon Depreciating Assets	Total Cost 13-May-04 \$	Diminishing Value Rate %	Depreciation Over First 48 Days \$	W.D.V. 30-Jun-04 \$
Air-conditioning (excluding pipes, ductwork and vents) :				
- Mini split systems (including ceiling, floor and high wall split systems)	3,921	15.00	77	3,844
Carpets :				
- Business places, hotels etc..	5,705	30.00	224	5,481
Fire Control and Alarm Systems :				
- Alarms, hoses and nozzles	1,657	7.50	16	1,641
Hot Water Installation	1,032	7.50	10	1,022
Lifts and Elevators :				
- Electric	7,254	9.00	86	7,168
Security Systems and Equipment :				
- Electronic	1,684	22.50	50	1,634
SUB TOTAL	\$ 21,253		\$ 463	20,790
LOW-VALUE POOL TOTAL	9,113	18.75	1,709	7,404
TOTAL	\$ 30,366		\$ 2,172	28,194

5. Prime Cost Depreciation Schedule

**Capital Expenditure incurred on depreciable plant
for the construction of
Lot 8 - Unit 1.01 The Observatory Resort William Street
Port Macquarie NSW**

Prepared for:
Thornet Pty Ltd

Humby Property Consultants

Property Tax Allowances Schedules

Prime Cost Depreciation Schedule for the Construction of

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

Capital Expenditure Incurred Upon Depreciating Assets	Total Cost 13-May-04 \$	Prime Cost Rate %	Depreciation Over First 48 Days \$	W.D.V. 30-Jun-04 \$
Air-conditioning (excluding pipes, ductwork and vents) :				
- Mini split systems (including ceiling, floor and high wall split systems)	3,921	10.00	51	3,870
Carpets :				
- Business places, hotels etc..	5,705	20.00	150	5,555
Fire Control and Alarm Systems :				
- Alarms, hoses and nozzles	1,657	5.00	11	1,646
Hot Water Installation				
	1,032	5.00	7	1,025
Lifts and Elevators :				
- Electric	7,254	6.00	57	7,197
Security Systems and Equipment :				
- Electronic	1,684	15.00	33	1,651
SUB TOTAL	\$ 21,253		\$ 309	20,944
 LOW-VALUE POOL TOTAL				
	9,113	18.75	1,709	7,404
TOTAL	\$ 30,366		\$ 2,018	28,348

6. Low-Value Pool Schedule

**Capital Expenditure incurred on depreciable plant
for the construction of
Lot 8 - Unit 1.01 The Observatory Resort William Street
Port Macquarie NSW**

Prepared for:
Thornet Pty Ltd

Humby Property Consultants

Property Tax Allowances Schedules

Low-Value Pool Schedule for the Construction of

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

Low-Cost Asset Description	Total Cost 13-May-04 \$	Diminishing Value Rate %	Depreciation Over First 48 Days \$	W.D.V. 30-Jun-04 \$
Air-conditioning (excluding pipes, ductwork and vents) :				
- Packaged air conditioning units to common property	194	18.75	36	158
Automatic Entry System and Mechanical Door Closers	534	18.75	100	434
Blinds	2,184	18.75	410	1,775
Electrical Machinery and Equipment :				
- Motors	42	18.75	8	34
Fire Control and Alarm Systems :				
- Alarms, hoses and nozzles	564	18.75	106	458
- Fire extinguishers	130	18.75	24	106
Furniture and Fittings :				
- Barbecue	16	18.75	3	13
- Door mats	38	18.75	7	31
- Furniture, counter fittings, shelving	179	18.75	34	145
Gymnasium Equipment	200	18.75	38	163
Hot Water Installation	111	18.75	21	90
Kitchen Equipment :				
- Dishwashers	834	18.75	156	678
- Exhaust and range hoods	159	18.75	30	129
- Microwave ovens	379	18.75	71	308
- Stoves	455	18.75	85	370
- Wall and other ovens	720	18.75	135	585
Laundry Plant :				
- Drying equipment	303	18.75	57	246
Linoleum, Vinyl and Similar Floor Coverings	81	18.75	15	66
Carried Forward	7,123		1,336	5,787

Humby Property Consultants

Property Tax Allowances Schedules

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

Low-Cost Asset Description	Total Cost 13-May-04 \$	Diminishing Value Rate %	Depreciation Over First 48 Days \$	W.D.V. 30-Jun-04 \$
Brought Forward	7,123		1,336	5,787
Pumps	565	18.75	106	459
Sauna and Spa Equipment :				
- Sauna	87	18.75	16	71
- Spa - filtration and heating assets only	68	18.75	13	55
Security Systems and Equipment :				
- Intercom access	272	18.75	51	221
Sun Shades - PVC Membrane	197	18.75	37	160
Swimming Pools :				
- Filtration equipment	126	18.75	24	102
- Heating equipment	80	18.75	15	65
Ventilating Plant :				
- Ventilation plant	595	18.75	112	483
TOTAL	\$ 9,113		\$ 1,709	7,404

7. Division 43 Capital Works Schedule

**Capital Expenditure incurred for the construction of
Lot 8 - Unit 1.01 The Observatory Resort William Street
Port Macquarie NSW**

Prepared for:

Thornet Pty Ltd

Humby Property Consultants

Property Tax Allowances Schedules

Capital Works Schedule for the Construction of

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

Qualifying Capital Expenditure Incurred on Eligible Capital Works
in accordance with Division 43 of the ITAA 1997.

Construction Dates	Total Historical Cost	Prime Cost Rate	Annual Claim	Opening Residual Value 13-May-04	Allowance for 48 Days	Closing Residual Value 30-Jun-04
Start - Completion	\$	%	\$	\$	\$	\$
Eligible Capital Works:						
1.) 1/11/02 - 13/5/04	327,261	2.50	8,182	327,261	1,073	326,188

TOTAL	\$	327,261	8,182	327,261	1,073	326,188
--------------	-----------	----------------	--------------	----------------	--------------	----------------

Humby Property Consultants

Property Tax Allowances Schedules

Structural Improvements Schedule for the Construction of

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

Qualifying Capital Expenditure Incurred on Structural Improvements
in accordance with Division 43 of the ITAA 1997.

Construction Dates	Total Historical Cost	Prime Cost Rate	Annual Claim	Opening Residual Value 13-May-04	Allowance for 48 Days	Closing Residual Value 30-Jun-04
Start - Completion	\$	%	\$	\$	\$	\$
Structural Improvements:						
1.) 1/11/02 - 13/5/04	2,997	2.50	75	2,997	10	2,987
TOTAL	\$ 2,997		75	2,997	10	2,987

Humby Property Consultants

Property Tax Allowances Schedules

8. Summary

The figures outlined in the previous schedules are reconciled in Section 9 of this report. Section 10 indicates the allowances available on a yearly basis and is supported by the Appendix (Section 12) which provides the supporting information required to submit yearly Group Certificates to the ATO.

As Quantity Surveyors providing information on Property Tax Allowances we have prepared this report examining the capital costs relating to:

1. Plant as included in the construction contract between Thornet Pty Limited and the building contractors and are calculated in accordance with the Income Tax Assessment Act 1997, Division 40.
2. Capital works deductions calculated in accordance with the Income Tax Assessment Act 1997, Division 43.

It is recommended that this information be provided to your accountant for interpretation and consideration in light of your overall tax position.

HUMBY PROPERTY CONSULTANTS

PO Box 381
Newcastle NSW 2300
Tel: 02 4942 4422

6 August 2004

9. Reconciliation of Expenditure

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

1. RECONCILIATION OF CAPITAL EXPENDITURE

Plant	\$30,366
Division 43 Capital Works	\$330,258
Non-eligible Expenditure *	\$11,069
Total Expenditure Analysed	<u>\$371,693</u>
<i>Percentage of Expenditure Attributable to Plant</i>	<i>8.17%</i>

2. SUMMARY OF DIVISION 43 CAPITAL WORKS

Buildings	- Original Cost	\$327,261
	- Opening Balance	\$327,261
Structural Improvements	- Original Cost	\$2,997
	- Opening Balance	\$2,997
Total Opening Balance		<u>\$330,258</u>

3. SUMMARY OF DIVISION 40 PLANT (DEPRECIATING ASSETS)

Opening Value of Plant in Low Value Pool	\$9,113
Remainder of Plant	\$21,253
Total Value of Plant	<u>\$30,366</u>

* The Reconciliation of Expenditure at the top of this page includes a figure for the "Non Eligible Expenditure". This figure includes the proportion of the construction cost relating to capital non-deductible items of expenditure.

Humby Property Consultants

Property Tax Allowances Schedules

10. Tax Allowance Flow

Lot 8 - Unit 1.01 The Observatory Resort William Street Port Macquarie NSW

ANNUAL ALLOWANCES

THE FOLLOWING SUMMARISES TAX DEDUCTIONS CLAIMABLE PER ANNUM

DIMINISHING VALUE METHOD				
Financial Year Ending	Division 40 Depreciating Assets \$	Division 40 Low Value Pool \$	Division 43 Deductions \$	Total Annual Claim \$
30 June 2004	463	1,709	1,083	3,255
30 June 2005	3,433	2,777	8,257	14,467
30 June 2006	2,627	2,090	8,257	12,974
30 June 2007	1,862	1,674	8,257	11,793
30 June 2008	1,502	1,046	8,257	10,805
30 June 2009	1,094	988	8,257	10,339
30 June 2010	486	1,318	8,257	10,061
30 June 2011	443	824	8,257	9,524
30 June 2012	333	872	8,257	9,462
30 June 2013	303	545	8,257	9,105
Remaining Years	3,069	908	254,862	258,839
TOTALS	15,615	14,751	330,258	360,624

PRIME COST METHOD				
Financial Year Ending	Division 40 Depreciating Assets \$	Division 40 Low Value Pool \$	Division 43 Deductions \$	Total Annual Claim \$
30 June 2004	309	1,709	1,083	3,101
30 June 2005	2,355	2,777	8,257	13,389
30 June 2006	2,355	1,735	8,257	12,347
30 June 2007	2,355	1,085	8,257	11,697
30 June 2008	2,355	678	8,257	11,290
30 June 2009	2,206	424	8,257	10,887
30 June 2010	1,214	265	8,257	9,736
30 June 2011	1,097	165	8,257	9,519
30 June 2012	962	103	8,257	9,322
30 June 2013	962	65	8,257	9,284
Remaining Years	5,083	107	254,862	260,052
TOTALS	21,253	9,113	330,258	360,624

11. Disclaimer

1. It is recommended that this information be provided to your accountant for interpretation and consideration in light of your overall tax position.
2. Taxation legislation is subject to amendment and re-interpretation. We recommend that you obtain your accountant's opinion on those aspects of the report which deal with definition of depreciable items and the rates used in connection therewith
3. These schedules have been prepared for the sole purpose of claiming property tax allowances and are not to be used for any other purpose.
4. These schedules are confidential to the owners of the premises, the future owner and essential parties dealing with a claim.
5. Humby Property Consultants does not accept any contractual, tortious or other form of liability for any consequences, loss or damage which may arise as a result of any other person acting upon or using this valuation.

12. Annual Adjustments to Low-Value Pool

1. A low-value pool contains both low-value depreciating assets (plant) and low-cost depreciating assets (plant) and is a means of depreciating assets at an accelerated rate.
2. Low-cost assets are assets which when acquired have a total cost of less than \$1,000. In the year of acquisition, a low-cost item is depreciated at 18.75% on the diminishing value basis. This rate, applicable for the first year only, is an averaging tool which negates the need for expenditure on these items to be apportioned over the number of days owned in that year. From the second year onwards the full rate of 37.5% will apply. The pool is always depreciated on a diminishing value basis.
3. Low-value assets are assets whose opening adjustable values (written down values) in a given tax year fall below \$1,000 when calculated on the diminishing value basis. From that year onwards, the taxpayer can put the assets into the low-value pool and it will be depreciated at 37.5% on the diminishing value basis from then on. Note that assets depreciated using the Prime Cost method cannot be put into the low-value pool when their written down value falls below \$1,000.
4. To meet the reporting needs of the taxpayer to the Australian Taxation Office (ATO) in the year of acquisition this report has identified the Low-cost items that form the opening balance of the low-value pool.
5. To meet the reporting needs of the taxpayer to the ATO in subsequent years (years 2 to 10) Appendices A and B identify the adjustments to the Low-value pool if either the diminishing value or prime cost method respectively is elected.
6. Note that the Tax Allowance Flow at Section 10 of this report includes for the adjustments made to the respective low value pools.

Humby Property Consultants

Property Tax Allowances Schedules

Appendix A

DIMINISHING VALUE LOW-VALUE POOL ANALYSIS

Classification	Value \$	Tax Rate %	Depreciation \$	WDV \$
Year 2:				
Opening Balance	7,404	37.50	2,777	4,628
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 7,404		\$ 2,777	4,628
Year 3:				
Opening Balance	4,628	37.50	1,735	2,892
Total New Low Value Pool Items	945	37.50	354	591
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 5,573		\$ 2,090	3,483
Year 4:				
Opening Balance	3,483	37.50	1,306	2,177
Total New Low Value Pool Items	982	37.50	368	614
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 4,465		\$ 1,674	2,790
Year 5:				
Opening Balance	2,790	37.50	1,046	1,744
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,790		\$ 1,046	1,744
Year 6:				
Opening Balance	1,744	37.50	654	1,090
Total New Low Value Pool Items	892	37.50	334	557
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,636		\$ 988	1,647
Year 7:				
Opening Balance	1,647	37.50	618	1,030
Total New Low Value Pool Items	1,868	37.50	701	1,168
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 3,516		\$ 1,318	2,197
Year 8:				
Opening Balance	2,197	37.50	824	1,373
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,197		\$ 824	1,373
Year 9:				
Opening Balance	1,373	37.50	515	858
Total New Low Value Pool Items	951	37.50	356	594
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,324		\$ 872	1,453
Year 10:				
Opening Balance	1,453	37.50	545	908
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,453		\$ 545	908

Humby Property Consultants

Property Tax Allowances Schedules

Appendix B

PRIME COST LOW-VALUE POOL ANALYSIS

Classification	Value \$	Tax Rate %	Depreciation \$	WDV \$
Year 2:				
Opening Balance	7,404	37.50	2,777	4,628
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 7,404		\$ 2,777	4,628
Year 3:				
Opening Balance	4,628	37.50	1,735	2,892
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 4,628		\$ 1,735	2,892
Year 4:				
Opening Balance	2,892	37.50	1,085	1,808
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,892		\$ 1,085	1,808
Year 5:				
Opening Balance	1,808	37.50	678	1,130
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,808		\$ 678	1,130
Year 6:				
Opening Balance	1,130	37.50	424	706
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,130		\$ 424	706
Year 7:				
Opening Balance	706	37.50	265	441
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 706		\$ 265	441
Year 8:				
Opening Balance	441	37.50	165	276
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 441		\$ 165	276
Year 9:				
Opening Balance	276	37.50	103	172
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 276		\$ 103	172
Year 10:				
Opening Balance	172	37.50	65	108
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 172		\$ 65	108

Humby Property Consultants

Property Tax Allowances Schedules

HPC



Humby Property Consultants

Quantity Surveyors

**Tax Depreciation Allowances Schedule
For the Acquisition of
Type D Furniture Package in Lot 8 The Observatory
Resort**

August 2004

File #: 20420.008 Furniture

Prepared for:

Thornet Pty Limited

Humby Property Consultants

Property Tax Allowances Schedules

Contents

1.	Introduction	1
2.	Methodology	2
3.	Diminishing Value Depreciation Schedule	3
4.	Prime Cost Depreciation Schedule	5
5.	Low-Value Pool Schedule	7
6.	Summary	9
7.	Ten Year Tax Allowance Flow	10
8.	Disclaimer	11

Appendix

9.	Low-Value Pool Adjustments	12
----	----------------------------	----

Humby Property Consultants

Property Tax Allowances Schedules

1. Introduction

1. Tax Depreciation Allowance Schedules have been prepared for the acquisition of the subject furniture package following instructions from Jason DeVos on behalf of Thornet Pty Limited.
2. Humby Property Consultants have been engaged in our capacity as Quantity Surveyors as per TR 97/25 to provide independent analysis of the capital allowances available under the Income Tax Assessment Act 1997 (ITAA 1997).
3. As the owner acquired this property after 1 July 1997, this assessment is based on the Income Tax Assessment Act 1997 and the following allowances have been evaluated:
 - Capital allowances for expenditure on plant in accordance with Division 40 of ITAA 1997
4. This report quantifies the capital allowances available to the taxpayer for the first 10 years of ownership. Information provided in this report will allow the taxpayer to complete the ATO requirements for claiming depreciation on property in terms of the annual adjustments to the low value pool.
5. Under Division 40 of the ITAA 1997 a taxpayer has to choose between the diminishing value method and the prime cost method of depreciating plant. This report provides schedules for both options and the Appendix provides the yearly adjustments to the low value pool for each option.
6. Having elected a method of depreciating plant, it is not possible to change methods through the ownership of the property.

2. Methodology

1. This report is based on legislation in effect at the time the asset was acquired and the date this report was produced. The report is based on Humby Property Consultants interpretation of the ITAA 1997, tax cases and tax rulings and our understanding of the Commissioner of Taxation's intentions.
2. Taxation legislation is subject to amendment and re-interpretation. We recommend that you obtain your accountant's opinion on those aspects of the report which deal with definition of depreciable items and the rates used in connection therewith.
3. The preparation of these schedules has been based on the following:
 - Date the furniture package was installed ready for use: 13 May 2004
 - The value of the furniture package (advised by supplier): \$24,950
4. For the purpose of this report the property was inspected on 12 July 2004 and a detailed analysis was completed. The analysis included identification, measurement and establishment of use of furniture. This incorporated compiling a full photographic record of the property to substantiate the existence of the assets.
5. This report is based on the information available to us at the time of preparation and has been prepared on the understanding that all items of plant listed in the schedules are owned by the taxpayer. If there are any additions, disposals or changes in ownership of any items, please contact Mark Humby of this office.

2.1. Plant

1. The valuation of plant has been based on a reasonable attribution of the overall capital expenditure as provided for in Section 40-195 ITAA 1997.
2. The effective lives used in calculating depreciation rates are taken from TR 2000/18 and the subsequent Income Tax (Effective Life of Depreciating Assets) Amendment Determinations.
3. The depreciation rates adopted in these schedules are in accordance with the legislation in force at the time of acquisition.
4. As allowed for in the ITAA 1997, assets acquired after 1 July 2000 with a cost under \$1,000 can be included in a low-value pool to accelerate their depreciation. They are depreciated at a rate of 18.75% over the whole first year using the diminishing value method. In future years, these assets are depreciated at 37.5% under the diminishing value method. See Section 12 of this report for further explanation of the Low-value pool and how utilising it can further improve a taxpayers cashflow.
5. Our schedules are based on the understanding that the owner of the property is not a small business taxpayer.

3. Diminishing Value Depreciation Schedule

**Expenditure incurred on depreciable plant
for the acquisition of
Type D Furniture Package in Lot 8 The Observatory
Resort**

Prepared for:
Thornet Pty Limited

Humby Property Consultants

Property Tax Allowances Schedules

Diminishing Value Depreciation Schedule for the Acquisition of Type D Furniture Package in Lot 8 The Observatory Resort William Street Port Macquarie NSW

Capital Expenditure Incurred Upon Depreciating Assets	Total Cost 14-May-04 \$	Diminishing Value Rate %	Depreciation Over First 47 Days \$	W.D.V. 30-Jun-04 \$
Audio Visual Equipment :				
- Home theatre pack	1,100	22.50	32	1,068
Furniture and Fittings :				
- Bedding & Linen	3,400	11.25	49	3,351
- Furniture, counter fittings, shelving	2,500	11.25	36	2,464
SUB TOTAL	\$ 7,000		\$ 117	6,883
LOW-VALUE POOL TOTAL	17,950	18.75	3,366	14,584
TOTAL	\$ 24,950		\$ 3,483	21,467

4. Prime Cost Depreciation Schedule

**Expenditure incurred on depreciable plant
for the acquisition of
Type D Furniture Package in Lot 8 The Observatory
Resort**

Prepared for:
Thornet Pty Limited

Humby Property Consultants

Property Tax Allowances Schedules

Prime Cost Depreciation Schedule for the Acquisition of

Type D Furniture Package in Lot 8 The Observatory Resort William Street Port Macquarie NSW

Capital Expenditure Incurred Upon Depreciating Assets	Total Cost 14-May-04 \$	Prime Cost Rate %	Depreciation Over First 47 Days \$	W.D.V. 30-Jun-04 \$
Audio Visual Equipment :				
- Home theatre pack	1,100	15.00	21	1,079
Furniture and Fittings :				
- Bedding & Linen	3,400	7.50	33	3,367
- Furniture, counter fittings, shelving	2,500	7.50	24	2,476
SUB TOTAL	\$ 7,000	\$	78	6,922
LOW-VALUE POOL TOTAL	17,950	18.75	3,366	14,584
TOTAL	\$ 24,950	\$	3,444	21,506

5. Low-Value Pool Schedule

**Expenditure incurred on depreciable plant
for the acquisition of
Type D Furniture Package in Lot 8 The Observatory
Resort**

Prepared for:
Thornet Pty Limited

Humby Property Consultants

Property Tax Allowances Schedules

Low-Value Pool Schedule for the Acquisition of

Type D Furniture Package in Lot 8 The Observatory Resort William Street Port Macquarie NSW

Low-Cost Asset Description	Total Cost 14-May-04 \$	Diminishing Value Rate %	Depreciation Over First 47 Days \$	W.D.V. 30-Jun-04 \$
Electrical Machinery and Equipment :				
- Miscellaneous items of electrical equipment	145	18.75	27	118
Furniture and Fittings :				
- Bedding & Linen	3,043	18.75	571	2,472
- Furniture, counter fittings, shelving	8,860	18.75	1,661	7,199
Kitchen Equipment :				
- Cutlery, crockery and utensils	2,007	18.75	376	1,631
- Refrigerators - residential	1,250	18.75	234	1,016
Laundry Plant :				
- General	140	18.75	26	114
- Irons and ironing boards	205	18.75	38	167
- Washing machines	850	18.75	159	691
Television Receivers	1,450	18.75	272	1,178
TOTAL	\$ 17,950		\$ 3,366	14,584

6. Summary

The following section indicates the allowances available on a yearly basis and is supported by the Appendix (Section 9) which provides the supporting information required to submit yearly Group Certificates to the ATO.

As Quantity Surveyors providing information on Tax Depreciation Allowances we have prepared this report examining the costs relating to:

1. Plant as included in the acquisition of the furniture package by Thornet Pty Limited in accordance with the Income Tax Assessment Act 1997, Division 40.

It is recommended that this information be provided to your accountant for interpretation and consideration in light of your overall tax position.

HUMBY PROPERTY CONSULTANTS

PO Box 381
Newcastle NSW 2300
Tel: 02 4942 4422

6 August 2004

Humby Property Consultants

Property Tax Allowances Schedules

7. Tax Allowance Flow

Type D Furniture Package in Lot 8 The Observatory Resort
William Street Port Macquarie NSW

ANNUAL ALLOWANCES

THE FOLLOWING SUMMARISES TAX DEDUCTIONS CLAIMABLE PER ANNUM

DIMINISHING VALUE METHOD				
Financial Year Ending	Division 40 Depreciating Assets \$	Division 40 Low Value Pool \$	Division 43 Deductions \$	Total Annual Claim \$
30 June 2004	117	3,366	0	3,483
30 June 2005	895	5,469	0	6,364
30 June 2006	271	4,762	0	5,033
30 June 2007	238	2,976	0	3,214
30 June 2008	0	2,571	0	2,571
30 June 2009	0	1,607	0	1,607
30 June 2010	0	1,004	0	1,004
30 June 2011	0	628	0	628
30 June 2012	0	392	0	392
30 June 2013	0	245	0	245
Remaining Years	0	409	0	409
TOTALS	1,521	23,429	0	24,950

PRIME COST METHOD				
Financial Year Ending	Division 40 Depreciating Assets \$	Division 40 Low Value Pool \$	Division 43 Deductions \$	Total Annual Claim \$
30 June 2004	78	3,366	0	3,444
30 June 2005	608	5,469	0	6,077
30 June 2006	608	3,418	0	4,026
30 June 2007	608	2,136	0	2,744
30 June 2008	608	1,335	0	1,943
30 June 2009	608	835	0	1,443
30 June 2010	608	522	0	1,130
30 June 2011	531	326	0	857
30 June 2012	443	204	0	647
30 June 2013	443	127	0	570
Remaining Years	1,857	212	0	2,069
TOTALS	7,000	17,950	0	24,950

8. Disclaimer

1. It is recommended that this information be provided to your accountant for interpretation and consideration in light of your overall tax position.
2. Taxation legislation is subject to amendment and re-interpretation. We recommend that you obtain your accountant's opinion on those aspects of the report which deal with definition of depreciable items and the rates used in connection therewith
3. These schedules have been prepared for the sole purpose of claiming tax depreciation allowances and are not to be used for any other purpose.
4. These schedules are confidential to the owners of the premises, the future owner and essential parties dealing with a claim.
5. Humby Property Consultants does not accept any contractual, tortious or other form of liability for any consequences, loss or damage which may arise as a result of any other person acting upon or using this valuation.

9. Annual Adjustments to Low-Value Pool

1. A low-value pool contains both low-value depreciating assets (plant) and low-cost depreciating assets (plant) and is a means of depreciating assets at an accelerated rate.
2. Low-cost assets are assets which when acquired have a total cost of less than \$1,000. In the year of acquisition, a low-cost item is depreciated at 18.75% on the diminishing value basis. This rate, applicable for the first year only, is an averaging tool which negates the need for expenditure on these items to be apportioned over the number of days owned in that year. From the second year onwards the full rate of 37.5% will apply. The pool is always depreciated on a diminishing value basis.
3. Low-value assets are assets whose opening adjustable values (written down values) in a given tax year fall below \$1,000 when calculated on the diminishing value basis. From that year onwards, the taxpayer can put the assets into the low-value pool and it will be depreciated at 37.5% on the diminishing value basis from then on. Note that assets depreciated using the Prime Cost method cannot be put into the low-value pool when their written down value falls below \$1,000.
4. To meet the reporting needs of the taxpayer to the Australian Taxation Office (ATO) in the year of acquisition this report has identified the Low-cost items that form the opening balance of the low-value pool.
5. To meet the reporting needs of the taxpayer to the ATO in subsequent years (years 2 to 10) Appendices A and B identify the adjustments to the Low-value pool if either the diminishing value or prime cost method respectively is elected.
6. Note that the Tax Allowance Flow at Section 10 of this report includes for the adjustments made to the respective low value pools.

Humby Property Consultants

Property Tax Allowances Schedules

Appendix A

DIMINISHING VALUE LOW-VALUE POOL ANALYSIS

Classification	Value \$	Tax Rate %	Depreciation \$	WDV \$
Year 2:				
Opening Balance	14,584	37.50	5,469	9,115
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 14,584		\$ 5,469	9,115
Year 3:				
Opening Balance	9,115	37.50	3,418	5,697
Total New Low Value Pool Items	3,583	37.50	1,344	2,239
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 12,698		\$ 4,762	7,936
Year 4:				
Opening Balance	7,936	37.50	2,976	4,960
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 7,936		\$ 2,976	4,960
Year 5:				
Opening Balance	4,960	37.50	1,860	3,100
Total New Low Value Pool Items	1,895	37.50	710	1,184
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 6,855		\$ 2,571	4,284
Year 6:				
Opening Balance	4,284	37.50	1,607	2,678
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 4,284		\$ 1,607	2,678
Year 7:				
Opening Balance	2,678	37.50	1,004	1,674
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,678		\$ 1,004	1,674
Year 8:				
Opening Balance	1,674	37.50	628	1,046
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,674		\$ 628	1,046
Year 9:				
Opening Balance	1,046	37.50	392	654
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,046		\$ 392	654
Year 10:				
Opening Balance	654	37.50	245	409
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 654		\$ 245	409

Humby Property Consultants

Property Tax Allowances Schedules

Appendix B

PRIME COST LOW-VALUE POOL ANALYSIS

Classification	Value \$	Tax Rate %	Depreciation \$	WDV \$
Year 2:				
Opening Balance	14,584	37.50	5,469	9,115
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 14,584		\$ 5,469	9,115
Year 3:				
Opening Balance	9,115	37.50	3,418	5,697
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 9,115		\$ 3,418	5,697
Year 4:				
Opening Balance	5,697	37.50	2,136	3,561
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 5,697		\$ 2,136	3,561
Year 5:				
Opening Balance	3,561	37.50	1,335	2,225
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 3,561		\$ 1,335	2,225
Year 6:				
Opening Balance	2,225	37.50	835	1,391
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,225		\$ 835	1,391
Year 7:				
Opening Balance	1,391	37.50	522	869
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,391		\$ 522	869
Year 8:				
Opening Balance	869	37.50	326	543
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 869		\$ 326	543
Year 9:				
Opening Balance	543	37.50	204	340
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 543		\$ 204	340
Year 10:				
Opening Balance	340	37.50	127	212
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 340		\$ 127	212

Humby Property Consultants

Property Tax Allowances Schedules