



1 FEATURED

When weather resilient home design meets smart depreciation planning

In the first half of 2025, a series of major flood, cyclone and storm events generated more than \$1.8 billion in insured losses across Australia, according to the Insurance Council of Australia. Storm and flood claims lodged between January and May alone exceeded the total claims recorded for all of 2024.

For residential property investors, the financial impact of these events extends well beyond rising insurance premiums. Severe weather can disrupt rental income and has important implications for how repairs, replacements and write-offs are treated for tax depreciation purposes.

Weather events and building resilience in Australian homes

Extreme weather events tend to cause predictable patterns of damage in residential properties.

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BMT Tax Depreciation
QUANTITY SURVEYORS

Flooding, whether from rivers, flash flooding or surface water, typically affects lower levels first. Common damage includes wall linings, floor finishes, joinery and other items such as wiring, hot water systems and air-conditioning units. Once water enters wall cavities or subfloors, drying times increase significantly, driving up repair costs.

Cyclones and ex-tropical systems place sustained pressure on roofs and building openings. Damage often begins with roof sheets, fixings and tie-downs before spreading to garage doors, windows and external doors. Once the building envelope is breached, internal water damage can escalate rapidly. Severe storms, characterised by hail, strong winds and heavy rainfall, frequently damage roofs, skylights and gutters, allowing water to penetrate ceilings and walls.

Across all weather events, failure of the building shell typically results in the most significant insurance claims, as internal finishes, electrical wiring, sewerage and water supply are far more expensive to repair than external elements alone.

Building resilience through layered protection

Effective weather resilience is best achieved through a layered approach, starting at the site, continuing through the building shell and extending into the interior of the home.

At a site-level, measures such as grading ground away from slabs, permeable paving, rain gardens and improved stormwater management can help slow and divert water during heavy rainfall. Non-return valves can reduce sewer backflow risk, while well-planned landscaping can limit heat and bushfire exposure.

The building shell provides the primary defence against weather entry. Stronger roof fixings, reinforced garage doors, improved seals, well-designed gutters, and gutter leaf guards, all reduce the likelihood of considerable damage during severe events.

Internal measures then limit damage if external defences are breached. Raising electrical wiring, sewerage and water supply above known flood levels and improving moisture control helps protect high-value assets and reduces repair time. When property owners fund these works, they are treated as capital improvements and may form part of the property's depreciable asset base.

Capital works before events and repairs after

Weather-resilient upgrades completed before a weather event are generally treated as capital works (Division 43). When funded by the property investor, these improvements are included in a tax depreciation schedule and claimed over time.

Repairs undertaken after a weather event are usually funded by insurance and are intended to restore the property to its pre-damage condition rather than improve it. Where an insurer pays directly for repairs, the owner has not incurred the cost and therefore cannot claim deductions on those works. Instead, deductions continue on the original assets.

If an owner receives an insurance payout and chooses to undertake capital works improvements, Division 43 deductions can be claimed on the new assets from that point forward. However, consideration is required as to whether a capital gain arises on the destroyed asset and whether rollover relief is available to defer capital gains tax by reducing the cost base of the replaced asset.

Where improvements exceed the scope of insurance-funded repairs, the owner-funded portion is included in the depreciation schedule.

Depreciation, insurance and asset write-offs

Severe weather events can also trigger plant and equipment (Division 40) asset write-offs for removable or mechanical items such as hot water systems and appliances. When these assets are destroyed and scrapped, any remaining undepreciated value may be claimed in the year of loss.

Insurance proceeds can affect this outcome. The amount received in a payout relating to a destroyed asset may reduce the deduction or create an assessable amount if the proceeds exceed the written down value. In some cases, the ATO allows this assessable amount to be rolled over into the replacement asset by reducing its opening value.

When rollover relief applies, the cost base of the replacement asset is usually adjusted to align with the written-down value of the original asset. This often results in future depreciation deductions that closely reflect what would have applied had the original asset not been lost.

If the destroyed asset was included in a low-value pool, insurance proceeds reduce the pool balance first, with any excess being assessable or used to reduce the opening value of the replacement asset.

Why a depreciation inspection matters

To ensure depreciation and insurance claims are correctly apportioned and fully ATO-compliant, a site inspection by a depreciation specialist is essential. This identifies all owner-funded weather-resilient upgrades and ensures they are correctly categorised to maximise depreciation deductions.

Having an up-to-date tax depreciation schedule in place before a weather event also supports accurate claiming and helps substantiate deductions when assets are damaged, replaced or written off.

For expert advice on weather-resilient upgrades, insurer-funded repairs or post-event property reviews, contact BMT Tax Depreciation on **1300 268 628** or **request a quote**.



TR 2025/D1: The ATO redefines tax treatment of holiday rentals

The release of Draft Taxation Ruling TR 2025/D1 signals a significant shift in how the Australian Taxation Office (ATO) applies section 26-50 of the Income Tax Assessment Act 1997 (ITAA 1997) to residential properties that sit on the boundary between private use and income production.

For property investors, particularly those using short-term or holiday-letting platforms, the ruling makes clear that many properties historically treated as standard investment properties may no longer qualify for the full range of rental property tax deductions.

A tighter interpretation of section 26-50

Section 26-50 denies deductions for assets that are characterised as leisure facilities where they are used for private recreation. Historically, the exception within section 26-50, where an asset is used or held mainly to produce assessable income for the entire income year, allowed many short-term rentals to be treated as ordinary investment properties.

TR 2025/D1 significantly narrows this exception. The ATO now proceeds on the basis that a holiday home is a leisure facility unless proven otherwise. The onus rests with the property owner to demonstrate sustained commercial use.

Importantly, owner intention and gross rental income are not determinative. The assessment is objective, evidence based and focused on how the property is actually deployed throughout the year.

Rental presence versus rental dominance

The ruling draws a clear distinction between being available for rent and being commercially deployed.

Properties with lifestyle characteristics, such as intermittent private use, owner access during peak periods, blocked calendars, limited marketing or passive booking management, are likely to be characterised as leisure assets, even if they are advertised for much of the year.

Availability is not measured by the number of days a property is listed. A property may appear broadly available yet fail the test if peak demand periods are consistently reserved for private use.

By contrast, genuine rental properties demonstrate:

- consistent availability to the market
- commercially realistic pricing
- active management focused on maximising occupancy across the entire year, including peak periods.

The ATO's position is clear: incidental rental income does not convert a lifestyle asset into an investment property.

Tax deductions under section 26-50

Once section 26-50 applies and a property is classified as a leisure facility, ownership-based tax deductions are denied.

This includes depreciation deductions, which are linked to holding the property rather than the act of earning income. TR 2025/D1 expressly confirms this distinction.

While rental income remains fully assessable, various deductions may be denied in full. Some variable expenses, such as platform fees, advertising and cleaning costs incurred solely because income is earned, may still be deductible under section 8-1.

Evidence will determine outcomes

The accompanying Practical Compliance Guideline PCG 2025/D6 reinforces that availability must be genuine, pricing commercial and management must be active, with claims supported by objective evidence.

Rental dominance may need to be demonstrated through documentation such as:

- booking calendars
- platform screenshots
- pricing comparisons
- enquiry and booking records
- management instructions.

To maximise depreciation deductions, properties must be commercially deployed across the financial year in a way that clearly evidences sustained market availability and active management.

What investors should do next

Although TR 2025/D1 is still in draft form, it reflects the ATO's current compliance position. Transitional treatment applies to arrangements in place before 12 November 2025, with increased scrutiny expected from 1 July 2026.

For investors with holiday homes, the ruling redraws the boundary between an investment property and a leisure or lifestyle asset. Short-term rentals are now assessed on how the property is used and made available throughout the year, not simply on the income earned. Access to property tax depreciation depends on rental dominance, not merely the presence of rental income.

For expert advice on the depreciation deductions available for your short-term rental property or holiday home, contact BMT Tax Depreciation on **1300 268 628** or **request a quote**.



Depreciation claims under the microscope amid ATO scrutiny

When prepared correctly, a property tax depreciation schedule can significantly reduce taxable income, improve cash flow and support long-term investment returns. When prepared incorrectly, however, depreciation claims can expose investors to Australian Taxation Office (ATO) scrutiny, resulting in amended returns, penalties and lost deductions.

Beyond rental bond data, the ATO is using a wider data-matching and third-party reporting ecosystem to scrutinise landlord tax returns, primarily to detect under-reported rental income, inflated or incorrect deductions and unreported capital gains tax (CGT) events. In this environment, depreciation claims that are inconsistent with other available data sources can attract attention, particularly where schedules are generic, outdated or insufficiently substantiated.

Overstated depreciation claims are a common trigger for ATO reviews and audits. Where errors are identified, investors may be required to amend prior-year tax returns, repay tax shortfalls and incur interest charges. In more serious cases, administrative penalties of up to 75 per cent of the tax shortfall may apply.

Common sources of depreciation errors

Most depreciation errors arise from incorrect asset classification between Division 43 (capital works) and Division 40 (plant and equipment), insufficient supporting documentation or continued reliance on outdated depreciation schedules. Misclassifying assets can distort deductions, while failing to identify improvements made by previous owners or applying incorrect effective life estimates can lead to both over - and under - claiming.

Additional risk is introduced through self-prepared or generic online depreciation schedules. While these options may appear cost-effective initially, they frequently fail to capture deductions that require a detailed on-site assessment by a depreciation specialist. Commonly overlooked items include plumbing and electrical components, historical renovations and applying the most current ATO legislation. This not only increases compliance risk but also raises the likelihood of missed deductions.

The ATO compliance standard

The ATO expects depreciation claims to be supported by appropriate professional expertise and defensible evidence. Where construction costs are unknown, only qualified quantity surveyors are recognised as having the expertise to estimate construction costs for depreciation purposes.

Taxation Ruling TR 97/25 recognises qualified quantity surveyors as suitably skilled to prepare depreciation cost estimates. As a result, engaging a registered quantity surveyor who specialises in tax depreciation is considered best practice.

How to mitigate risk and avoid penalties

To maintain compliance and reduce the likelihood of ATO scrutiny, investors and advisers should:

- engage a quantity surveyor accredited by the Australian Institute of Quantity Surveyors with specialist knowledge of depreciation legislation
- review depreciation schedules regularly, particularly after capital improvements, ownership changes or legislative updates
- maintain detailed records, including purchase contracts, construction costs and invoices for capital works, and plant and equipment assets
- align depreciation claims with broader tax strategy in consultation with an accountant.

A professionally prepared and substantiated depreciation schedule prepared by a qualified quantity surveyor enables investors to claim the correct deductions, optimise returns and reduce the risk of costly ATO scrutiny.

Is your investment property built for long-term performance?

Successful property investing isn't just about choosing the right property, it's about understanding how it performs as conditions change.

With interest rates shifting and holding costs evolving, investors who understand their numbers are better positioned to adapt, optimise and make confident decisions. The strongest portfolios aren't built on best-case assumptions, but on flexibility and foresight from the outset.

This is where informed decision-making becomes a genuine advantage.

Turning insight into confidence

PropCalc, BMT's Investment Property Cash Flow Calculator, helps investors model real-world scenarios so they can make decisions with greater certainty, both before purchasing and throughout the life of an investment.

Rather than focusing on a single outcome, PropCalc allows investors to explore how changes to interest rates, rental income or expenses may affect affordability, weekly cash flow and long-term holding costs. For existing owners, this provides clarity around future impacts. For buyers, it offers reassurance that a property stacks up not just today, but over time.

A more complete view of performance

While many calculators offer only a basic pre-tax snapshot, PropCalc delivers a more comprehensive picture by incorporating tax depreciation, one of the most valuable, yet often overlooked elements of property investing.

Built on BMT's tax depreciation expertise, PropCalc estimates potential depreciation benefits and shows how they can improve after-tax outcomes. Using reliable property and suburb data, the tool pre-fills key details, allows scenario testing and property comparisons and generates clear reports covering holding costs, yield and gearing.

PropCalc doesn't replace professional advice; it supports it. With clearer numbers and fewer assumptions, investors are better equipped to move forward with confidence.

Explore PropCalc at bmtqs.com.au/propcalc.

Keeping it clean: Maximising tax depreciation in asset-heavy businesses

Carwashes and laundromats are examples of inherently asset-intensive businesses. In these models, capital is concentrated in mechanical systems, automation, and specialised infrastructure rather than labour. As this operating approach gains popularity, it enables efficient, scalable operations while also creating significant opportunities for tax depreciation.

Modern self-serve and automatic carwash facilities typically operate with minimal staffing, with owners focused on maintenance, consumables and management. Laundromats follow a similar model, increasingly supported by cashless payment platforms, remote monitoring and machine diagnostics that enable extended trading hours without on-site staff. For investors, this translates to predictable operating costs, reduced labour exposure and a business structure well suited to depreciation-driven cash flow outcomes.

Core operational assets, such as washers, dryers, water recycling systems, payment kiosks and control systems, are generally owned by the business and classified as depreciable plant and equipment under Division 40 of the Income Tax Assessment Act. While Division 43 capital works deductions may also apply, depreciation on business-owned plant and equipment often represents the largest portion of available deductions. When assets are correctly identified and classified, the high concentration of plant and equipment in carwashes and laundromats can substantially enhance after-tax cash flow.

Equipment turnover and reinvestment

Carwash and laundromat equipment is designed for continuous, high-volume use. Machinery and supporting systems are built to withstand moisture, chemicals and vibration, delivering long operational lifespans and minimising downtime. At the same time, both industries continue to evolve in response to energy efficiency standards, environmental requirements and customer expectations, making regular equipment upgrades a necessary part of business operations.

When machinery is replaced, scrapping provisions allow the remaining undepreciated value of the outgoing assets to be claimed as an immediate deduction, rather than written off over their remaining effective lives. This can deliver a substantial tax benefit in the year of replacement, helping to offset reinvestment costs. Where eligible, instant asset write-off measures may further accelerate deductions.

For the 2025–26 financial year, eligible small businesses with aggregated turnover of less than \$10 million can immediately deduct the full cost of each qualifying depreciable asset costing under \$20,000 (excluding GST), provided it is installed ready for use during the same financial year. Each machine and supporting system is treated as a separate asset with its own effective life and, when replaced, is added to the depreciation schedule and claimed in accordance with the relevant provisions. This framework encourages timely reinvestment while ensuring facilities remain efficient, compliant and competitive over the long term.

Case study: Laundromat fit-out

A recent BMT client established a new laundromat, acquiring 12 commercial washers and 12 commercial dryers of varying sizes and values. As the business qualified as a small business entity, all assets were individually priced below the \$20,000 instant asset write-off threshold and were therefore eligible for full deduction in the same financial year.

However, given the business's stable income profile, the owner was advised to apply the diminishing value method of depreciation. This approach spreads deductions over a longer period, supporting consistent cash flow aligned with ongoing earnings rather than concentrating deductions earlier on.

Table 1. Depreciation deductions on laundromat

Asset	Total value	1st year deductions	1st 5 year cumulative
Signage	\$12,500	\$2,500	\$8,404
Furniture	\$6,200	\$1,163	\$5,431
Air conditioner	\$4,600	\$920	\$3,093
Entertainment systems	\$1,500	\$300	\$1,266
CCTV security system	\$3,700	\$694	\$3,241
Hot water system	\$1,600	\$267	\$1,238
Commercial washers	\$125,000	\$14,706	\$58,147
Commercial dryers	\$210,000	\$35,000	\$125,606
Automatic pay station	\$7,800	\$1,560	\$5,244
Vending machine	\$5,900	\$2,360	\$5,422
Total	\$378,800	\$59,470	\$217,092

*Calculated using the diminishing value method.

Maximising deductions with a site inspection

An up-to-date tax depreciation schedule prepared following a site inspection, ensures all eligible Division 40 plant and equipment, Division 43 capital works, scrapped assets and applicable write-off concessions are accurately identified and applied.

For more information on the depreciation deductions available on your business assets, contact BMT Tax Depreciation on **1300 268 628** or **request a quote**.



Discover the build cost of your next project

The BMT Construction Cost table is a useful guide to the cost of construction for different types of residential and commercial buildings.

To discover the build costs of your next project, adjust costs for various regions by multiplying the construction cost by the regional variations opposite. This will provide an approximate cost for the construction cost per square metre in your area.

Alternatively, you can download and calculate build costs using the BMT Cost Calc app at bmtqs.com.au/cost-calc.

Regional variations

Hobart	90 - 100%
Canberra	92 - 110%
Melbourne	94 - 105%
Adelaide	90 - 108%
Sydney	100 - 100%
Perth	98 - 120%
Brisbane	92 - 105%
Cairns	90 - 110%
Darwin	110 - 120%

Construction type		Level of finish (per m ²)		
		Low	Medium	High
House	3BR weatherboard project home, level block, single level, shelf design	\$2,042	\$2,286	\$2,828
	3BR brick veneer project home, level block, single level, shelf design	\$2,176	\$2,424	\$2,895
	3BR full brick project home, level block, single level, shelf design	\$2,261	\$2,512	\$3,140
	4BR weatherboard home, level block, single level, unique design	\$2,867	\$3,064	\$3,824
	4BR brick veneer home, level block, single level, unique design	\$3,047	\$3,191	\$4,016
	4BR full brick home, level block, single level, unique design	\$3,408	\$3,893	\$4,290
	3BR brick veneer project home, level block, two level, shelf design	\$2,269	\$2,508	\$3,093
	3BR full brick project home, level block, two level, shelf design	\$2,354	\$2,647	\$3,247
	4BR brick veneer home, level block, two level, unique design	\$3,092	\$3,495	\$4,057
	4BR full brick home, level block, two level, unique design	\$3,418	\$3,924	\$4,284
	Architecturally designed executive residence	\$4,536	\$5,807	\$8,123
Townhouse	2BR single level brick veneer townhouse including allowance for common property	\$3,201	\$3,642	\$4,101
	2BR 2 level brick veneer townhouse including allowance for common property	\$3,286	\$3,702	\$4,302
	3BR single level brick veneer townhouse including allowance for common property	\$3,171	\$3,610	\$4,056
	3BR 2 level brick veneer townhouse including allowance for common property	\$3,256	\$3,793	\$4,318
Units	3 level walk-up unit complex, concrete structure, ground floor parking	\$3,370	\$3,617	\$4,389
	3 level walk-up unit complex, concrete structure, basement parking	\$3,302	\$3,548	\$4,318
	4-8 level unit complex, including lift, concrete structure, ground floor parking	\$3,849	\$4,142	\$5,017
	4-8 level unit complex, including lift, concrete structure, basement parking	\$3,764	\$4,056	\$4,934
	8 or more level unit complex, including lift and basement car parking	\$3,994	\$4,533	\$5,765
Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	\$3,472	\$3,871	\$4,549
	4-8 level open plan offices, including A/C & lifts, excluding fit out	\$4,024	\$4,318	\$5,806
	8 levels and over, including A/C & lifts, excluding fit out	\$5,758	\$6,081	\$6,358
Industrial	High Bay Warehouse, standard configuration, concrete floor, metal clad	\$1,653	\$1,867	\$2,013
	High Bay Warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	\$2,030	\$2,146	\$2,391
Retail	Suburban shopping mall area including A/C	\$4,336	\$4,520	\$5,059
	Supermarket, including A/C, excluding fit out	\$2,746	\$2,932	\$3,286
Hotels/motels	Single level boutique motel including A/C, guest facilities	\$5,342	\$6,112	\$8,035
	Single level tavern/hotel including A/C, excluding loose item fit out	\$4,456	\$5,304	\$6,382

The above rates exclude goods and services tax (GST). Please visit bmtqs.com.au for more information.

Disclaimer | The information including the construction costs contained in Maverick is provided for general information only and on the understanding that BMT Tax Depreciation Pty Ltd nor any of its officers or employees are providing professional advice on any particular matter or are liable for any error or omission in the information or any damage or loss suffered from any reliance on that information. Professional advice should be sought for your particular circumstances.

The construction costs are average prices in a metropolitan area and should be adjusted with reference to specific conditions. They are not intended to be relied upon or used for tendering or pricing variations. Construction costs include costs of labour and materials, waste, hoisting, fixing in position and a profit allowance based on prevailing market conditions but exclude any GST, costs of land, demolition and any work outside the footprint of the building.

Sydney
Level 17, 123 Pitt Street
Sydney NSW 2000

Parramatta
Level 14, 3 Parramatta Square,
153 Macquarie Street
Parramatta NSW 2150

Brisbane
Level 22, 127 Creek Street
Brisbane QLD 4000

Gold Coast
Level 15 Corporate Centre One
2 Corporate Court
Bundall QLD 4217

Newcastle
19 Bruncker Road
Broadmeadow NSW 2292

Melbourne
Level 50, 120 Collins Street
Melbourne VIC 3000

Darwin
Level 1, Paspalis Centrepoint
48-50 Smith Street
Darwin NT 0800

Perth
Level 28, 140 St Georges Terrace
Perth WA 6000

Cairns
Boland Centre, 14 Spence Street
Cairns QLD 4870

Canberra
Level 5, 15 Moore Street
Canberra ACT 2600

Adelaide
Ground Floor,
121 King William Street,
Adelaide SA 5000

Hobart
Level 3, 85 Macquarie Street
Hobart TAS 7000