



SINKING FUND CHANGES A BLESSING IN DISGUISE...

There are two recent changes to the treatment of sinking funds (sometimes referred to as reserve funds) of which owners should be aware.

Firstly from the 7th of February 2005 ALL strata schemes registered after that date in NSW are required to plan ahead for the ensuing ten-year period. Sinking Funds are intended to allow for long-term repair and maintenance of common property items such as roofing, painting, fencing etc. Owners Corporations, or a specialist such as a Quantity Surveyor, need to work out the likely expenditure required for that 10-year period. For new schemes the ten-year sinking fund must be on the agenda of the first annual general meeting.

Secondly the Australian Tax Office (ATO) recently released an Interpretive Decision ID 2004/934. In summary ID 2004/934 has determined that not all levies are deductible and this applies to all states. Specifically, special levies that are of a capital nature cannot be claimed as an outright deduction.

The following is a case where the exact same

work is being carried out, but as an investor it's now more important to ensure you pay on an ongoing basis to maximise your tax deductions.

Washington Brown, Quantity Surveyors, recently worked on a building in Bondi, NSW where the following work was carried out:

1. Spalling concrete	\$37,000
2. Lintel repairs	\$10,000
3. Balcony slab spalling	\$50,000
4. Brick replacement	\$3,000
5. Crack rectification	\$3,000
6. Re-membrane roof	\$25,000
7. New aluminium windows	\$205,000
8. Replace balustrades	\$40,000
9. Repair drainage	\$75,000

Total	\$448,000
--------------	------------------

In this example, Washington Brown

determined that replacement of the balustrades and windows was not a repair, but a capital improvement. The owners' corporation had to replace ALL the windows and balustrades with better product and material.

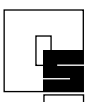
If the owners' corporation had \$448,000 in the bank, there would be no need for a special levy and the investors could claim the full amount as a tax deduction over the previous years.

BUT as so often happens, the sinking fund had a minimal amount in the kitty. A special levy was called, with everyone required to top the fund up substantially. Sadly only about 50% of the expenditure (approx. \$200k) was deductible.

The rest had to be treated as a capital expenditure and claimed at 2.5% per annum, OUCH!

ABN 11 101 242 497

ACN 101 242 497



Australian Institute of Quantity Surveyors

Sydney
Level 2, 270 Pacific Highway
Crows Nest NSW 2065

Melbourne
Level 2, 222 Latrobe Street
Melbourne VIC 3000

Brisbane
Level 23, 127 Creek Street
Brisbane QLD 4000

Perth
Suite 88, City West Centre
Plastowe Mews
West Perth WA 6005

Cairns
129A Lake Street
Cairns QLD 4870

Adelaide
213 Greenhill Road
Eastwood SA 5063

Hobart
127 Bathurst Street
Hobart Tasmania 7000