



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 65 - Unit C1.03 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	\$223,176
Stamp duty	Not Applicable
Total Expenditure Analysed	<u>\$223,176</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 \$223,176 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 900 out of 100,000.

4. Diminishing Value Depreciation Schedule

**Capital Expenditure incurred on depreciable plant
for the construction of
Lot 65 - Unit C1.03 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 65 - Unit C1.03 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..	4,328	30.00	170	4,158
Hot Water Installation	1,032	7.50	10	1,022
Lifts and Elevators :				
- Electric	3,674	9.00	43	3,631
SUB TOTAL	\$ 12,955		\$ 300	12,655
 LOW-VALUE POOL TOTAL	 8,079	 18.75	 1,515	 6,564
TOTAL	\$ 21,034		\$ 1,815	19,219

5. Prime Cost Depreciation Schedule

**Capital Expenditure incurred on depreciable plant
for the construction of
Lot 65 - Unit C1.03 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 65 - Unit C1.03 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..	4,328	20.00	114	4,214
Hot Water Installation	1,032	5.00	7	1,025
Lifts and Elevators :				
- Electric	3,674	6.00	29	3,645
SUB TOTAL	\$ 12,955	\$	201	12,754
LOW-VALUE POOL TOTAL	8,079	18.75	1,515	6,564
TOTAL	\$ 21,034	\$	1,716	19,318

6. Low-Value Pool Schedule

**Capital Expenditure incurred on depreciable plant
for the construction of
Lot 65 - Unit C1.03 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 65 - Unit C1.03 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	98	18.75	18	80
Automatic Entry System and Mechanical Door Closers	358	18.75	67	291
Blinds	1,085	18.75	203	882
Electrical Machinery and Equipment :				
- Motors	21	18.75	4	17
Fire Control and Alarm Systems :				
- Alarms, hoses and nozzles	1,124	18.75	211	913
- Fire extinguishers	66	18.75	12	54
Furniture and Fittings :				
- Barbecue	8	18.75	2	7
- Door mats	19	18.75	4	15
- Furniture, counter fittings, shelving	89	18.75	17	72
Gymnasium Equipment	101	18.75	19	82
Hot Water Installation	56	18.75	11	46
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	41	18.75	8	33
Carried Forward	5,916		1,109	4,807

Humby Property Consultants

Property Tax Allowances Schedules

Lot 65 - Unit C1.03 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	5,916		1,109	4,807
Pumps	287	18.75	54	233
Sauna and Spa Equipment :				
- Sauna	44	18.75	8	36
- Spa - filtration and heating assets only	34	18.75	6	28
Security Systems and Equipment :				
- Intercom access	272	18.75	51	221
- Insert card access control system	853	18.75	160	693
Sun Shades - PVC Membrane	100	18.75	19	81
Swimming Pools :				
- Filtration equipment	64	18.75	12	52
- Heating equipment	41	18.75	8	33
Ventilating Plant :				
- Ventilation plant	468	18.75	88	380
TOTAL	\$ 8,079		\$ 1,515	6,564

7. Division 43 Capital Works Schedule

**Capital Expenditure incurred for the construction of
Lot 65 - Unit C1.03 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 65 - Unit C1.03 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	195,017	2.50	4,875	195,017	639	194,378
-----	-------------------	---------	------	-------	---------	-----	---------

TOTAL	\$	195,017		4,875	195,017	639	194,378
--------------	-----------	----------------	--	--------------	----------------	------------	----------------

Humby Property Consultants

Property Tax Allowances Schedules

Structural Improvements Schedule for the Construction of

Lot 65 - Unit C1.03 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	1,518	2.50	38	1,518	5	1,513

TOTAL	\$	1,518	38	1,518	5	1,513
--------------	-----------	--------------	-----------	--------------	----------	--------------

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

9 August 2004

9. Reconciliation of Expenditure

Lot 65 - Unit C1.03 The Observatory Resort William Street Port Macquarie NSW

1. RECONCILIATION OF CAPITAL EXPENDITURE

Plant	\$21,034
Division 43 Capital Works	\$196,535
Non-eligible Expenditure *	\$5,607
Total Expenditure Analysed	<u>\$223,176</u>
<i>Percentage of Expenditure Attributable to Plant</i>	<i>9.42%</i>

2. SUMMARY OF DIVISION 43 CAPITAL WORKS

Buildings	- Original Cost	\$195,017
	- Opening Balance	\$195,017
Structural Improvements	- Original Cost	\$1,518
	- Opening Balance	\$1,518
Total Opening Balance		<u>\$196,535</u>

3. SUMMARY OF DIVISION 40 PLANT (DEPRECIATING ASSETS)

Opening Value of Plant in Low Value Pool	\$8,079
Remainder of Plant	\$12,955
Total Value of Plant	<u>\$21,034</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 65 - Unit C1.03 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	300	1,515	644	2,459
30 June 2005	2,227	2,462	4,913	9,602
30 June 2006	1,661	1,893	4,913	8,467
30 June 2007	1,298	1,183	4,913	7,394
30 June 2008	1,028	739	4,913	6,680
30 June 2009	391	1,171	4,913	6,475
30 June 2010	204	1,087	4,913	6,204
30 June 2011	186	679	4,913	5,778
30 June 2012	169	425	4,913	5,507
30 June 2013	154	265	4,913	5,332
Remaining Years	1,555	442	151,674	153,671
TOTALS	9,173	11,861	196,535	217,569

PRIME COST METHOD				
Financial Year Ending	Division 40 Depreciating Assets \$	Division 40 Low Value Pool \$	Division 43 Deductions \$	Total Annual Claim \$
30 June 2004	201	1,515	644	2,360
30 June 2005	1,530	2,462	4,913	8,905
30 June 2006	1,530	1,538	4,913	7,981
30 June 2007	1,530	962	4,913	7,405
30 June 2008	1,530	601	4,913	7,044
30 June 2009	1,416	376	4,913	6,705
30 June 2010	664	235	4,913	5,812
30 June 2011	664	147	4,913	5,724
30 June 2012	664	92	4,913	5,669
30 June 2013	664	57	4,913	5,634
Remaining Years	2,562	94	151,674	154,330
TOTALS	12,955	8,079	196,535	217,569

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	6,564	37.50	2,462	4,103
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 6,564		\$ 2,462	4,103
Year 3:				
Opening Balance	4,103	37.50	1,538	2,564
Total New Low Value Pool Items	945	37.50	354	591
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 5,048		\$ 1,893	3,155
Year 4:				
Opening Balance	3,155	37.50	1,183	1,972
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 3,155		\$ 1,183	1,972
Year 5:				
Opening Balance	1,972	37.50	739	1,232
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,972		\$ 739	1,232
Year 6:				
Opening Balance	1,232	37.50	462	770
Total New Low Value Pool Items	1,890	37.50	709	1,181
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 3,123		\$ 1,171	1,952
Year 7:				
Opening Balance	1,952	37.50	732	1,220
Total New Low Value Pool Items	947	37.50	355	592
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,899		\$ 1,087	1,812
Year 8:				
Opening Balance	1,812	37.50	679	1,132
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,812		\$ 679	1,132
Year 9:				
Opening Balance	1,132	37.50	425	708
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,132		\$ 425	708
Year 10:				
Opening Balance	708	37.50	265	442
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 708		\$ 265	442

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	6,564	37.50	2,462	4,103
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 6,564		\$ 2,462	4,103
Year 3:				
Opening Balance	4,103	37.50	1,538	2,564
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 4,103		\$ 1,538	2,564
Year 4:				
Opening Balance	2,564	37.50	962	1,603
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,564		\$ 962	1,603
Year 5:				
Opening Balance	1,603	37.50	601	1,002
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,603		\$ 601	1,002
Year 6:				
Opening Balance	1,002	37.50	376	626
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,002		\$ 376	626
Year 7:				
Opening Balance	626	37.50	235	391
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 626		\$ 235	391
Year 8:				
Opening Balance	391	37.50	147	245
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 391		\$ 147	245
Year 9:				
Opening Balance	245	37.50	92	153
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 245		\$ 92	153
Year 10:				
Opening Balance	153	37.50	57	96
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 153		\$ 57	96

Humby Property Consultants

Property Tax Allowances Schedules

HPC



Humby Property Consultants
Quantity Surveyors

**Tax Depreciation Allowances Schedule
For the Acquisition of
Type 1 Furniture Package in Lot 65 The Observatory
Resort**

August 2004

File #: 20420.065 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): \$17,360
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 1 Furniture Package in Lot 65 The Observatory
Resort**

Prepared for:
Thornet Pty Limited

Humby Property Consultants

Property Tax Allowances Schedules

Diminishing Value Depreciation Schedule for the Acquisition of Type 1 Furniture Package in Lot 65 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	2,350	11.25	34	2,316
- Furniture, counter fittings, shelving	2,300	11.25	33	2,267
SUB TOTAL	\$ <u>5,750</u>	\$	<u>99</u>	<u>5,651</u>
LOW-VALUE POOL TOTAL	11,610	18.75	2,177	9,433
TOTAL	\$ <u>17,360</u>	\$	<u>2,276</u>	<u>15,084</u>

4. Prime Cost Depreciation Schedule

**Expenditure incurred on depreciable plant
for the acquisition of
Type 1 Furniture Package in Lot 65 The Observatory
Resort**

Prepared for:
Thornet Pty Limited

Humby Property Consultants

Property Tax Allowances Schedules

Prime Cost Depreciation Schedule for the Acquisition of

Type 1 Furniture Package in Lot 65 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	2,350	7.50	23	2,327
- Furniture, counter fittings, shelving	2,300	7.50	22	2,278
SUB TOTAL	\$ <u>5,750</u>	\$	<u>66</u>	<u>5,684</u>
LOW-VALUE POOL TOTAL	11,610	18.75	2,177	9,433
TOTAL	\$ <u>17,360</u>	\$	<u>2,243</u>	<u>15,117</u>

5. Low-Value Pool Schedule

**Expenditure incurred on depreciable plant
for the acquisition of
Type 1 Furniture Package in Lot 65 The Observatory
Resort**

Prepared for:
Thornet Pty Limited

Humby Property Consultants

Property Tax Allowances Schedules

Low-Value Pool Schedule for the Acquisition of

Type 1 Furniture Package in Lot 65 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	120	18.75	23	98
Furniture and Fittings :				
- Bedding & Linen	1,642	18.75	308	1,334
- Furniture, counter fittings, shelving	5,235	18.75	982	4,253
Kitchen Equipment :				
- Cutlery, crockery and utensils	1,568	18.75	294	1,274
- Refrigerators - residential	900	18.75	169	731
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	950	18.75	178	772
TOTAL	\$ 11,610		\$ 2,177	9,433

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

7. Tax Allowance Flow

Type 1 Furniture Package in Lot 65 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	99	2,177	0	2,276
30 June 2005	756	3,537	0	4,293
30 June 2006	251	3,210	0	3,461
30 June 2007	114	2,370	0	2,484
30 June 2008	0	1,817	0	1,817
30 June 2009	0	1,136	0	1,136
30 June 2010	0	710	0	710
30 June 2011	0	444	0	444
30 June 2012	0	277	0	277
30 June 2013	0	173	0	173
Remaining Years	0	289	0	289
TOTALS	1,220	16,140	0	17,360

PRIME COST METHOD				
Financial Year Ending	Division 40 Depreciating Assets \$	Division 40 Low Value Pool \$	Division 43 Deductions \$	Total Annual Claim \$
30 June 2004	66	2,177	0	2,243
30 June 2005	514	3,537	0	4,051
30 June 2006	514	2,211	0	2,725
30 June 2007	514	1,382	0	1,896
30 June 2008	514	864	0	1,378
30 June 2009	514	540	0	1,054
30 June 2010	514	337	0	851
30 June 2011	438	211	0	649
30 June 2012	349	132	0	481
30 June 2013	349	82	0	431
Remaining Years	1,464	137	0	1,601
TOTALS	5,750	11,610	0	17,360

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	9,433	37.50	3,537	5,896
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 9,433		\$ 3,537	5,896
Year 3:				
Opening Balance	5,896	37.50	2,211	3,685
Total New Low Value Pool Items	2,665	37.50	999	1,665
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 8,560		\$ 3,210	5,350
Year 4:				
Opening Balance	5,350	37.50	2,006	3,344
Total New Low Value Pool Items	970	37.50	364	606
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 6,321		\$ 2,370	3,950
Year 5:				
Opening Balance	3,950	37.50	1,481	2,469
Total New Low Value Pool Items	896	37.50	336	560
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 4,846		\$ 1,817	3,029
Year 6:				
Opening Balance	3,029	37.50	1,136	1,893
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 3,029		\$ 1,136	1,893
Year 7:				
Opening Balance	1,893	37.50	710	1,183
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,893		\$ 710	1,183
Year 8:				
Opening Balance	1,183	37.50	444	739
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,183		\$ 444	739
Year 9:				
Opening Balance	739	37.50	277	462
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 739		\$ 277	462
Year 10:				
Opening Balance	462	37.50	173	289
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 462		\$ 173	289

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	9,433	37.50	3,537	5,896
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 9,433		\$ 3,537	5,896
Year 3:				
Opening Balance	5,896	37.50	2,211	3,685
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 5,896		\$ 2,211	3,685
Year 4:				
Opening Balance	3,685	37.50	1,382	2,303
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 3,685		\$ 1,382	2,303
Year 5:				
Opening Balance	2,303	37.50	864	1,439
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 2,303		\$ 864	1,439
Year 6:				
Opening Balance	1,439	37.50	540	900
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 1,439		\$ 540	900
Year 7:				
Opening Balance	900	37.50	337	562
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 900		\$ 337	562
Year 8:				
Opening Balance	562	37.50	211	351
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 562		\$ 211	351
Year 9:				
Opening Balance	351	37.50	132	220
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 351		\$ 132	220
Year 10:				
Opening Balance	220	37.50	82	137
Total New Low Value Pool Items	0	37.50	0	0
Total New Low Cost Pool Items	0	18.75	0	0
TOTAL	\$ 220		\$ 82	137

Humby Property Consultants

Property Tax Allowances Schedules