

20 May 2010

Fact sheet – Building depreciation

What is changing?

- Depreciation deductions will no longer be allowed for buildings with an estimated useful life of 50 years or more, such as rental houses and offices.
- These rules will change for all such buildings from the 2011/12 income year. For most businesses they will be effective from 1 April 2011.

Why?

- Data indicates that, on average, New Zealand buildings do not drop in value over time. The current depreciation allowances therefore give a tax preference to owning property.
- The new rules will better reflect how buildings actually change in value and make the tax treatment of property fairer compared to other forms of investments. This will encourage productive investment in the economy.

Key facts

- These changes will affect landlords, property investors, property investment companies and some business owners, who can currently claim depreciation at 3 per cent (by the diminishing value method) or 2 per cent (by the straight line method) of the purchase price of their building.
- Building owners will still be able to claim deductions for repairs and maintenance, to maintain the condition and value of their properties. They will also still be able to claim depreciation deductions for "fit outs" not considered part of the building. The Government intends to review the treatment of commercial "fit out" and, if necessary, amend the rules prior to 1 April 2011 to address any uncertainty in this area.
- Building owners will be able to apply to Inland Revenue for a provisional depreciation rate if they consider a class of buildings, has an estimated useful life of less than 50 years.
- These changes will raise \$685 million in 2011/12, rising to \$690 million in 2013/14.

More information

- *A special report explaining the relevant amendments will be available on Inland Revenue's Policy Advice Division website at www.taxpolicy.ird.govt.nz after Budget day legislation is introduced.*