

CHANGES ON THE WAY FOR DEPRECIATION

The Government is poised to stop property investors claiming depreciation tax breaks and is understood to be also considering tighter rules for those who buy and sell property for profit but dodge the tax they should pay.

Mr Key made clear that changes to depreciation were likely after he ruled out other avenues suggested by the tax working group, including a universal land tax, a capital gains tax and a flat tax on equity in investment properties. The Government also appears likely to leave in place the ability of property investors to offset losses against other income, as ending it would not raise enough to be worthwhile. The working group favoured ending depreciation breaks for buildings that did not actually decrease in value, but Mr Key suggested it could be scrapped across the board.

“That would still allow investors, including Mum and Dad, to write off any repairs and expenses that they have, but, really, allowing depreciation of an asset that’s not depreciating, at the cost of other New Zealand taxpayers doesn’t seem to be fair to us.”

What does this mean for you? There has been no indication by the Government as to when these changes will take effect. The earliest possible date we believe would be for the year ended 31 March 2011, tax year commencing 1 April 2010. If the May budget does pass this and enact it effective 1 April 2010 then it will impact on what you would expect as a tax refund at the end of the year or alternatively if you have a special tax code in place for the commencement of the new year 1 April 2010 then this may need to be amended.

As discussed it is not clear when the depreciation change on buildings will be effective.

Our recommendation is: It’s business as usual until such time as the Government confirm the nature of the changes and announce the effective date of the changes.

Some further thoughts: With these changes we may not see another residential boom for a while...with rental yields low and perhaps little prospect of capital gain; it is possible that many investors could look for alternative investments? Will residential property still be the investment it once was? Will we look to commercial property where the yields are higher but then there’s more cash and investment required? Or will we view shares as an option and be prepared for the volatility?

Kind regards

Warren Perriam

Perriam & Partners Ltd, Chartered Accountants & Business Advisors
Unit 4, 35 Sir William Pickering Drive PO Box 20-222, Bishopdale, CHRISTCHURCH
Telephone: (03) 358 3108, Facsimile: (03) 358 3120 E-mail: firstname@perriams.co.nz