



As a Commercial Property owner are you unsure of recent depreciation changes?

Here are the answers for YOU

No depreciation - NOT CORRECT !!

Many property owners mistakenly believe that with the changes announced in the 2010 budget, specifically the depreciation rate on buildings reducing to zero, that there will be no depreciation deductions available for their property.

While this is true for the “**building**”, there will still be depreciation available on the “**fit-out**” component of the property as well as “**plant & equipment**”. How much depreciation will be available will depend on their respective values and which option you choose.

The option you choose will have a major impact on your cash-flow so it is important that you understand them.

In the detail

In August 2010 the IRD and Treasury published an **Issues Paper** to address unintentional negative impacts of the budget changes on non-residential properties, and to propose legislation to implement the required law changes. These proposals have since been confirmed by the Revenue Minister in a fact sheet released in December 2010.

The law clarifies that fit-out associated with commercial, industrial, recreational and certain short-term accommodation—motels, hotels, rest homes, some serviced apartments and hospitals, for example—are able to be separately depreciated. The items of fit-out that are separately depreciable are described in the Commissioner’s “Building Fit-out” asset category. This lists over 90 items.

So despite the removal of building depreciation commercial property owners are still able to claim depreciation on building fit-out, which includes **but is not limited to** items such as:

- Partitions
- Electrical Reticulation
- Plumbing
- Light fittings

- Floor coverings
- Lifts
- Air-conditioning
- Fences
- Roller doors
- Fire alarm systems

and much more.

Existing Ownership

Many commercial property owners have not elected to, or have been advised against, claiming full depreciation entitlements in the past and therefore have no separation of items within the property depreciation schedule.

You now have a decision to make as to how you claim depreciation going forward.

New Purchase

For new purchases this apportionment is critical or you will have no depreciation if purchased after the 2012 tax year! If purchased before this you still have a decision to make.

Option ONE

The IRD has proposed a transitional option that would allow a one-off adjustment. Under this approach, taxpayers that are currently depreciating commercial and industrial fit-out as part of the building would create a building fit-out depreciation pool of 15 percent of the building's adjusted tax book value.

The pool would be depreciated at 2% straight line (equivalent to the current building depreciation rate).

Taxpayers would be permitted to elect to create a fit-out pool only once - from the start of the 2011/12 income year.

The BETTER option!

For many property owners the best option may be to review the separation of the purchase price and to **correctly allocate the property value** into the IRD depreciation categories and where possible start claiming at the maximum depreciation rates claimable. These rates will generally be between 8 - 40% diminishing Value.

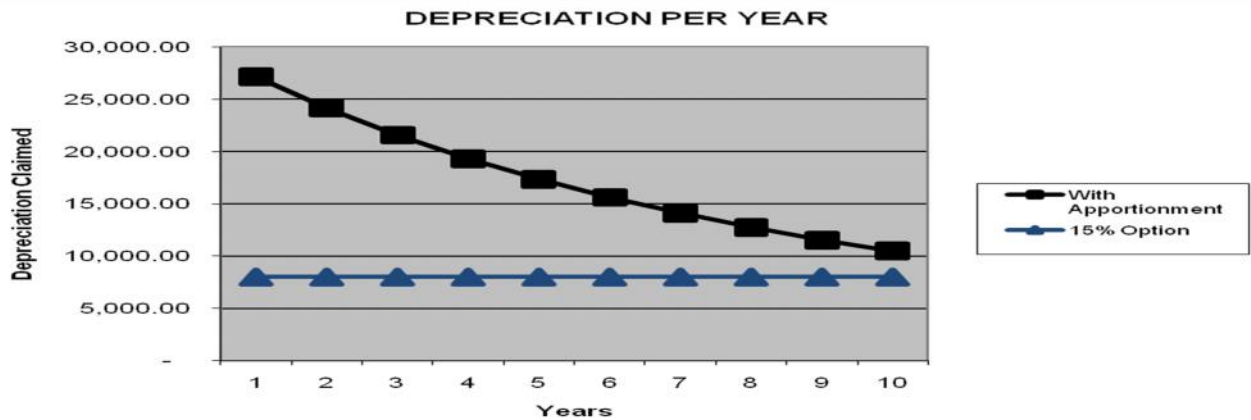
Take a look at the examples that show depreciation using the 15% transitional rule compared with **a specialist depreciation apportionment** as completed by **Valuit**.

In many of cases the depreciation claimed using Valuit is more than they were claiming by just using the previous building rate of 3per cent.

Examples

Property Purchase Price \$4,100,000

15% Pool Option		Dep %	Total 10 Years
Land	1,400,000	0	0
Building	2,700,000	0	0
Fit-out Pool	405,000	2%SL	81,000
WITH VALUIT REPORT			
Land	1,400,000	0	0
Building	2,400,000	0	0
Fit-out & Plant	300,000	8-40%DV	174,000



Property Purchase Price \$981,000

15% Pool Option		Dep %	Total 10 Years
Land	430,000	0	0
Building	551,000	0	0
Fit-out Pool	82,650	2%SL	16,530
WITH VALUIT REPORT			
Land	430,000	0	0
Building	460,000	0	0
Fit-out & Plant	91,000	8-40%DV	53,000

