# When it's time to file your tax return

**As Changes to depreciation rules were made in 2011 and it surprises me the number of people that are still not up to speed with the changes. The easy solution seems to be to advise property investors that it is no longer worth claiming depreciation.**

**I beg to differ. Depreciation is all about cash-flow and as investors cash-flow is critical.**

Despite the change in 2011 that has removed the ability to claim depreciation on some items including the building structure, there is still plenty to be claimed.

Check out our other article on "Depreciation Basics" to get an understanding of what it is all about.

Once you understand the basics the following is a guideline to property owners of what you should be considering in relation to depreciation.

**<u>For properties you currently own</u>**

For those investors that haven't had a chattels valuation, which is a breakdown of the property assets into the various IRD depreciation categories, you need to think about this as without this breakdown you will have no depreciation. Many items including, but NOT limited to the following can still be claimed;

Some fitted furniture
Heat pumps
Wardrobes and cupboards not built into the wall
Carpets
Waste disposals
Dishwashers
Curtains
Blinds
Water heaters and hot-water cylinders.
Retaining walls
Light shades
Spa pools
Fences
Clotheslines
Mailboxes
Driveways
Carports
Decks (some)
Heating units (some)
and much more

You are required by IRD to claim depreciation unless you elect an asset not to be depreciable property. If you elect to not claim depreciation, you'll need to let IRD know by attaching your notification to your tax return. This election will then apply to every year from when the asset was purchased.

**Personally, I'm not sure why an investor would do this. It is like throwing money away.**

## It's all about cashflow

Let's have a look at an example.

| | |
|---|---|
| Rental income | $250 per week<br>$13,000 per year |
| *LESS* Cash Expenses<br>(Insurance, rates, interest etc) | -$10,000 per year |
| **Income for the year**<br>**(physical income in your pocket)** | **$3,000 per year** |

Now let's also take into account the depreciation

| | |
|---|---|
| *LESS* Non-Cash Expense<br>(Depreciation) | $8,000 first year |
| ***TAXABLE* income for the year**<br>**(What IRD taxes you on)** | **-$5,000 Tax loss** |

This example means that you get $3,000 in your pocket for the year, or $57 per week (positive cash flow).

However, when it comes to paying tax IRD calculates it on the amount after considering depreciation. You still get to keep the $3,000 but you have made a $5,000 loss for tax (negatively geared for tax).

Now depending on your ownership structure, you may be able to apply this tax loss to your personal income.

**NOTE**: this may change if the Government introduces "Ring fencing" of losses. These losses would then be held against the property and used to offset future profits.
Remember it is a non-cash loss, it hasn't actually cost you anything. Your salary of $45,000 may now be taxed based on a salary of $40,000

## Summary

Complete a Chattels valuation on those recent property purchases if you haven't already – this will maximise your allowable depreciation claim.

For all future purchases ensure you get a depreciation apportionment completed, without it you will get no depreciation.

**You are obligated to claim depreciation** unless you declare it as a non-depreciating asset.

**Depreciation is all about cash-flow and as investors cash-flow is critical.**

**Steve Tucker – Director**
steve.t@valuit.co.nz

**(0508) 482 583 - www.valuit.co.nz**