New Zealand's only

Purchase Price Allocation specialists

valuit

CREATING THE WIN-WIN

Purchase Price Allocation:

This one paperwork mistake could cost you thousands instantly

A new reality for vendors and purchasers

From 1 July 2021, Purchase Price Allocation (PPA) became a mandatory requirement for most commercial property transactions in New Zealand. From 1 April 2024, building depreciation on commercial structures was removed once again, taking with it a major source of cashflow benefits for property investors.



Taken together, these two changes have fundamentally altered the tax treatment of commercial property transactions. They introduce both opportunity and risk, depending on how well you understand and apply the PPA rules.

Yet across the market, confusion persists. Sale and purchase agreements continue to be signed showing a value for Land and Buildings BUT fail to separate "Depreciable Assets" from buildings (ALL building fit-out, Land Improvements and Equipment is depreciable and therefore "Depreciable Assets" must be allocated a value within the PPA). Put in simple terms "Building Structure" that does not allow depreciation is effectively the floor, roof and external walls. Everything else is a depreciable asset.

If the value of "Depreciable Assets" isn't documented correctly in the PPA, it is potentially detrimental to both the Vendor and Purchaser. For a purchaser that means lost depreciation, reduced cash flow, and, for vendors, potentially larger tax bills from depreciation recovery.

This information sheet outlines PPA requirements, who's at risk, and how to avoid costly mistakes in your next transaction.

At a glance

"Depreciable Assets" includes but is not limited to:

Land Improvements

- Driveway/Hardstanding
- Fences
- Retaining walls
- Tanks
- Decks
- Water treatment

Building Fit-out

- Electrical
- Light Fittings
- Plumbing and Fixtures
- Fitted cabinets
- Partitions
- Floor coverings
- HVAC
- Fire alarm, detection, handling
- Lifts
- Canopies
- Water heaters
- Handrails
- Roller doors and motors
- Signage

Equipment

- Industry or Building specific items, loose or fitted.
- Appliances

and much, much more!

why a PPA?

Under the new rules, PPA must be consistent between vendor and purchaser and based on market value. This consistency requirement is a direct response to the historic mismatch where vendors tried to reduce tax by inflating the land portion and purchasers inflated the value of "Depreciable Assets" to claim more depreciation.

vendor the loss

Now, if the PPA isn't agreed up front, the IRD can impose its own allocation. In practice, this leaves vendors exposed.

For vendors who've claimed depreciation it is imperative to understand how the Purchase Price Allocation is structured, any portion of the sale price allocated without consideration could result in depreciation recovery income, a taxable gain. If vendors fail to take the lead and allow IRD or the purchaser to allocate values, they may face a far less favourable tax outcome.

Timing is also crucial. If neither party act or come to an agreement, the IRD can step in and at that point, there's no control left.

In short: Delay or neglect the PPA process, and the vendor risks a larger tax bill with no way to challenge it.

purchaser the loss

For purchasers, the primary concern is missed depreciation deductions, and this risk is growing.

Since 1 April 2024, commercial buildings can once again no longer be depreciated (land has never been depreciable), which leaves only Land Improvements, Building fit-out and Equipment as the assets where depreciation can still be claimed.

NO VALUE ALLOCATED TO DEPRECIABLE ASSETS

Under the PPA framework, if the agreement only specifies values for Land and Buildings (as many still do) there's no scope to claim depreciation on the assets where depreciation is still claimable.

Even if the building clearly contains depreciable assets, the purchaser is bound by the agreed PPA (effectively it has been agreed that all of these items have no value). Electrical, Plumbing, Partitions, Flooring, HVAC, Driveways, Fences and much more are all "depreciable assets".



NOMINAL VALUE ALLOCATED

Even when "depreciable assets" such as fit-out is allocated a value this will often be for only a fraction of what the Vendor was entitled to claim. Often this maybe for a few items or some renovation work that has been completed during ownership.

We see VERY FEW value allocations where the vendor has claimed their full entitlement. If the agreed value is too low, the purchaser still loses. Too often we see purchasers agreeing to token allocations on fit-out without questioning how they were calculated or what it included.

In talking with IRD they are very clear that a purchaser should not be penalised as a result of a vendor not correctly depreciation all assets.

- No value on "depreciable assets"? No depreciation.
- Nominal value on "depreciable assets" Restricted depreciation.
- Cashflow suffers.

PPA the irony

Despite years of education most sale and purchase contracts continue to allocate only two asset classes: land and buildings OR apply a nominal value to some depreciable assets. This is now a significant problem.

Where purchasers or their advisors try to adjust later and isolate ALL depreciable assets after the contract is signed, they create an inconsistency between buyer and seller, which is a breach of the PPA requirement. This is precisely what IRD aims to prevent.



The irony? A simple PPA that is worded correctly and provides achievable timeframes could have provided a WIN-WIN for both the Vendor and the Purchaser. But once the agreement is made, the opportunity is generally lost.

This is no longer a technical issue. It's a real cashflow issue for both parties.

success story

Case Study

VENDOR PROPOSED PPA	
Land:	$790,000
Building:	$1,475,000
Chattels:	$35,000 (list provided)
"VALUIT" RE-ASSESSED PPA	
Land:	$790,000
Building Structure:	$1,279,000
Depreciable Assets:	$231,000 (Inc $35,000 chattels)

This WIN-WIN scenario resulted in a TAX Neutral position for the Vendor, and the purchaser claimed an additional $20,000 in depreciation in the first year from what they would have been entitled to claim using the Vendor proposed PPA.

IRD v contract law

There is still some mismatch between how IRD applies TAX rules to the preparation of a PPA versus how the standard ADLS/ REINZ contract deals with the PPA, and how lawyers custom terms/clauses within contracts deal with the PPA.

In practice what we at VALUIT are seeing is confusion and as a result Non-compliant PPA's.

In conversations with IRD three things have become very clear

1. As per the Tax Act a PPA must include all "classes of property".For a standard property transaction this is
   a. LAND (property class vi),
   b. BUILDING STRUCTURE (property class iv) and
   c. DEPRECIABLE ASSETS (property class iii)
2. There is a requirement for a PPA to allocate a value to ALL Depreciable Assets. NOT a nominal value for a few assets.
3. A purchaser should not be negatively impacted due to a vendor not claiming depreciation correctly.

In practice, we are not currently seeing this achieved.

As a result VALUIT has developed an "Alternative Addendum" that can be used when putting together the PPA. This is very simple to complete, is clear and concise, and meets the three points as identified in conversations with IRD. It has been reviewed to ensure it meets Tax law requirements as well contract law requirements.

Ask us for more information on our "Alternative Addendum".

what, a reprieve?

If you purchased a commercial property between 1 April 2020 and 31 March 2024 and did not separate the "depreciable assets" from buildings, you still have a narrow window to correct it, provided the contract predates the April 2024 change.

This is an opportunity to claim depreciation and improve cash flow without contravening the current rules. Speak to Valuit to review your agreement.

purchaser the win

As a purchaser before signing any commercial property agreement over $1 million:

- **Insist on a PPA** which allows for separate values for land, buildings, and **ALL** depreciable assets.
- **Ensure the depreciable assets value reflects ALL assets**, not just a few that they may have claimed depreciation on.
- Is the Value on depreciable assets the **"Book Value" or has it been professionally assessed as "Market Value"?**
- **Ask for a list of assets that they have claimed depreciation on**. This does not need to be listed as part of the PPA but is beneficial to know.
- Get advice before signing the PPA section of the contract, **if in doubt cross it out**. It can be handled later
- **Don't assume the agent, your lawyer or accountant will catch this.**

The depreciation benefit will materially impact your return on investment.

vendor the win

Before listing a property for sale:

- **Know your current book values** and tax position.
- **Understand how depreciation recovery works.**
- **Have you claimed your full entitlement** and claimed depreciation on assets such as Electrical, Plumbing, Partitions, Flooring, HVAC, Driveways, Fences?
- Work with your accountant to **pre-prepare a PPA using the "VALUIT alternative addendum"**
- **Be aware that some depreciation recovery may be acceptable** if it enables a clean, higher-value sale
- **Realise that buyers are now more educated** and will push for a "Depreciable Assets" allocation, so it is best to be ready

If a clean deal is your goal, transparency and preparation BEFORE writing up a contract will help you get there.

why Valuit?

We've been providing expert advice on depreciation and asset valuation for over 25 years. As the rules and thresholds shift, our job is to keep property professionals ahead of the curve.

- We work with vendors, purchasers, and advisers
- We provide market-based valuations for PPA purposes
- We help resolve legacy issues where "depreciable assets" weren't separated
- We understand the practical impact of these rules on investment returns

final thought

This isn't just another regulatory change, but a full reset of how commercial property investments perform after tax.

If you get it wrong, you lose deductions, reduce cash flow, or pay more tax than necessary.

If you get it right, you protect your position – and sometimes unlock thousands in extra value.

Talk to your accountant, talk to your lawyer, talk to Valuit.

Steve Tucker
Director, Valuit Asset Appraisals Limited
Phone: 0508 482 583
Email: steve.t@valuit.co.nz
Website: www.valuit.co.nz

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