New Zealand's only

Purchase Price Allocation specialists

valuit

PROTECT CLIENT & REPUTATION

Why advisers must act on Purchase Price Allocation

In the wake of Inland Revenue's 2021 Purchase Price Allocation (PPA) rules and the 2024 removal of building depreciation, advisers now play a critical role in ensuring property transactions are structured correctly.



A poor or incomplete PPA can cost your client thousands in tax deductions, trigger unexpected tax liabilities, or derail settlement. Worse still, if the omission comes from your agreement or advice, it could affect your reputation.

Whether you are drafting agreements, managing tax compliance, or structuring deals, this is no longer a back-office detail. Purchase Price Allocation is now central to deal value, risk management, and client satisfaction.

why this matters

Lawyers

If the agreement only specifies land and building, the buyer cannot claim depreciation. If it allocates a value to some but NOT all depreciable assets the purchasers cashflow will suffer. If the allocation is inconsistent, inaccurate or missing, IRD may intervene. That opens the door to disputes, delays, and post-settlement tension. Buyers and sellers are now seeking advice from us to validate what has been entered into the Sales and Purchase contract.

At a glance

- A Purchase Price Allocation (PPA) is mandatory for commercial property transactions over $1 million
- The allocation must be consistent between buyer and seller
- Building depreciation was removed from 1 April 2024
- Land Improvements, Building Fit-out and Equipment remain as "depreciable assets" BUT a value must be allocated within the PPA
- A missing or vague PPA increases tax risk for both parties
- Buyers are becoming more sophisticated and are challenging poor allocations
- A large majority of PPA's we see are not compliant with the TAX ACT.

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.

Accountants

You may be filing returns based on a flawed PPA. Depreciation recovery risk sits with the vendor. Lost depreciation sits with the purchaser. Both can reflect poorly.

Have you advised clients of the opportunity to amend returns under IRD's current concession for 2020–24 transactions?

Agents

A well-structured PPA can protect the value of the deal. Purchasers want assurance they can claim depreciation. Vendors want to avoid surprises. If this isn't raised early, it can derail the deal later. Helping clients avoid these problems builds trust and repeat business.

what we see

Despite the changes, many agreements still only allocate values to land and buildings and occasionally a nominal value to 'depreciable assets". This structure now offers no depreciation or limited depreciation for buyers and may create recovery income for vendors.

IRD requires the PPA to reflect market value. It must be the same for both parties.

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 a majority of the time is Non-compliant OR heavy skewed PPA's.

In all cases, the adviser's silence can become the problem.

Risk scenarios

- The PPA agreement omits SOME/ALL "depreciable assets"
- The vendor submits a non-market allocation
- The buyer submits an allocation that increases the vendor's tax
- The IRD gets involved due to complaints of inaccurate PPA
- The vendor faces unexpected depreciation recovery
- The transaction becomes adversarial after signing

These are real-world events we are now regularly assisting with.

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success story

Case Study One

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 VALUIT 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.

Case Study Two

DOCUMENTED AND SIGNED PPA WITHIN S&P AGREEMENT

Land:	$2,082,400
Building:	$250,000
Air con, Gate, Driveway:	$27,600

"VALUIT" RE-ASSESSED PPA – POST SETTLEMENT

Land:	$1,103,043
Building Structure:	$890,317
Depreciable Assets:	$366,640

This is an example of a PPA that was heavily skewed towards the Vendor. Initially the vendor refused to re-assess this. However, after the purchaser's accountant expressed concern to IRD this is being reviewed. This MARKET VALUE based scenario will result in a TAX Liable position for the Vendor (this could have been minimised with the VALUIT Alternative Addendum), and the purchaser will be able to claim an additional $41,000 in depreciation in the first year.

what can still be depreciated?

The list is extensive and includes:

Land Improvements such as: Driveway/ Hardstanding, Fences, Retaining walls, Tanks, Decks, Water treatment.

Building Fit-out such as: Electrical, Light Fittings, Plumbing and Fixtures, Fitted cabinets, Partitions, Floor coverings, HVAC, Fire alarm, Fire handling, Lifts, Canopies, Water heaters, Handrails, Roller doors and motors, Signage.

Equipment such as: Industry or Building specific items, lose or fitted. Appliances.

Many of these assets are often missed or misclassified as part of the building.

A medium-sized property can contain several hundred thousand dollars' worth of depreciable assets. If not stated in the PPA, the value is lost for tax purposes.

simple fix

You do not need to be a valuer. But you do need to flag the issue.

- For LAWYERS: Ensure a PPA includes an allocation to "depreciable assets" and that it includes ALL "depreciable assets" OR seek valuation input.
- For ACCOUNTANTS: Review past deals from 2020–24 and apply under IRD's section 113 concession. If giving guidance on values for a PPA ensure it includes detail of what is included within the value of each "class of property" and is the value Market Value or Book Value.
- For AGENTS: Encourage early advice and disclosure so value is preserved. Getting the PPA sorted at the time of listing can save so much contention when writing up a contract.

The earlier this is discussed, the smoother the outcome.



how Valuit helps you

Valuit works with legal, tax and property professionals like you nationwide to make your job easier by delivering fast, compliant, market-based valuations AND ADVICE that support your client and your advice.

We provide:

- A complimentary review of past or pending Sale and Purchase Agreement PPA's
- Market-based valuation of depreciable assets
- Advice on PPA structuring and language
- Section 113 support for retrospective reassessments



- Credibility and evidence if IRD ever asks questions
- Plain-English PPA "ALTERNATIVE ADDENDUM" you can include in future transactions

That's right! 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.

Most PPA's we see provide a heavily skewed bias towards one party. 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. This is what the VALUIT "Alternative Addendum" provides. A WIN-WIN

Ask us for more information on our "Alternative Addendum"

why this matters more than ever

Advisers who ignore PPA today risk more than missed savings for clients, they risk reputational damage.

Raising this early shows diligence. Addressing it shows leadership.

final word

A well-structured Purchase Price Allocation is no longer a technicality but a cornerstone of good advisory practice.

If you are unsure how to advise on PPA, we can help. If you want to protect your client and your firm, start by reviewing your next Sale and Purchase Agreement AND ask us for assistance.

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