New Zealand's only

Purchase Price Allocation specialists

valuit

CRITICAL FOR VENDORS

Selling commercial property?

A poorly structured Purchase Price Allocation (PPA) could cost you

From 1 July 2021, Purchase Price Allocation (PPA) became mandatory for most commercial property transactions in New Zealand, but from 1 April 2024, commercial building depreciation was removed again.

Taken together, these changes have introduced new tax exposure for vendors, especially if the PPA is not handled correctly.

In short, what used to be routine is now a risk.



what is a PPA?

A Purchase Price Allocation (PPA) divides the total purchase price among land, building structure and every other asset that forms part of the transaction.

Each component then follows its own tax treatment. Land is not depreciable, building structure is no longer depreciable, and the remaining assets can still be depreciated at higher rates.

An example of items that are depreciable and therefore require a value and category listing of "DEPRECIABLE ASSETS" within the PPA are, Electrical, Plumbing, Partitions, Flooring, HVAC, Driveways, Fences and much more.

At a glance

Many Sale and Purchase Agreements still only allocate values to land and buildings OR they may include a nominal value to depreciable assets within the Purchase Price Allocation (PPA). Land has never been depreciable, and buildings are no longer depreciable from 1 April 2024. This means the value allocated to "depreciable assets" is critical to an incoming purchaser as it will have a substantial impact on their cashflow.

However, if you have not claimed your full depreciation entitlement across ALL "depreciable assets" if the PPA is not structured correctly it could create three key issues:

- IRD may challenge the allocation or impose its own
- Purchasers may push back on deals that limit their ability to claim
- You may face an unexpected tax liability.

Did you know you were entitled to claim depreciation on. Driveway/Hardstanding, Fences

Retaining walls, Electrical, Light Fittings, Plumbing and Fixtures, Fitted cabinets, Partitions, Floor coverings, HVAC, Water heaters, Roller doors and motors, Signage, Appliances, and much, much more!

why pay attention

The default assumption is that PPA is only the purchasers problem. In reality, vendors face just as much exposure, especially under the consistency rule. This rule requires that both parties use the same allocation in their tax filings.

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

If you'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 you as the vendor fail to take the lead and allow IRD or the purchaser to allocate values, they may face a far less favourable tax outcome.

In short: Delay or neglect the PPA process, and you risk a larger tax bill with no way to challenge it. Assuming your accountant will handle it is no longer sufficient.



stories not always positive

Case Study One

VENDORS ADVISOR – INITIAL PROPOSED PPA

Land:	$790,000
Building:	$1,475,000
Chattels:	$35,000 (list provided)

"VALUIT" RE-ASSESSED and FINALISED 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.

Case Study Two

DOCUMENTED AND SIGNED PPA WITHIN S&P AGREEMENT

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

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 scenario will result in a TAX Liable position A LOSS for the Vendor (this could have been minimised with the VALUIT Alternative Addendum).

what to do now

When 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.

understand depreciation recovery

Depreciation recovery occurs when the sale price allocated to a depreciated asset exceeds its written down value. This gap becomes taxable income for the vendor.

With building depreciation gone from 1 April 2024, and "depreciable assets" often not recorded separately, a poorly prepared PPA increases the risk of recovery income. This can trigger an unexpected tax bill.

A properly structured allocation helps reduce this risk and gives you a firmer footing in any negotiation.

how Valuit helps

Valuit has worked with vendors, lawyers and accountants for over 25 years to ensure property transactions are compliant, defensible and commercially sound.

We offer:

- A free draft of your PPA using the VALUIT Alternative Addendum.
- Advice on managing depreciation recovery risk



- Plain English guidance that provides clarity for you and the purchaser
- Ongoing support during the sales process

final thought

The new PPA environment demands preparation. Whether you are exiting an investment or restructuring your portfolio, you need to ensure the tax implications are fully understood.

We can help.

A short conversation now could prevent thousands in unexpected costs later.

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