



Depreciation – the time to file your tax return is now upon us.

Changes to depreciation rules were made in 2011 and it surprises the team at Valuit the number of people that are 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. At Valuit we beg to differ. Depreciation is all about cash flow and as investors cash flow is critical.

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

For a full and detailed run down that also covers the basics of what depreciation is and why you should be claiming it check out the video on the Valuit website www.valuit.co.nz

Once you understand the basics the following is a guideline to property owners of what you should be considering now that it's time to get everything ready for completing your tax return.

For properties you currently own

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. Since the changes in 2011 without this breakdown you will have no or minimal depreciation. So now is the time to have a depreciation apportionment completed. Many items including but NOT limited to the following can still be claimed;

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

For future purchases

When buying a property in the future make sure you take full advantage of your depreciation entitlements, it's all about increasing cash-flow. The issues around depreciation recovery are now negligible and we have clarity from IRD around what can be separated from the buildings. Without an apportionment you will get minimal or no depreciation and therefore you will miss out on the cash-flow advantages it generates.

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.

Recent Questions that have been raised

Q - We are going to get a chattels apportionment completed but do we need to have it done by a certain date?

A – The simple answer is no. Depreciation reports are always best completed as close to the time you take possession but not critical. Depreciation is based on the property when you purchased it so our report and the figures within it are calculated based on that date. If any major changes have occurred then it is great if you have photo or video evidence.

Q - If I replace the carpet, blinds, light fittings, heat pump, dishwasher in a house, would I be better off with the chattel depreciation or claiming it as repairs and maintenance?

A – The question of Repairs and Maintenance versus Depreciation is not really about what is best rather what is correct, is it repairs or a capital improvement, and this will generally come down to if you are improving the property beyond what it was when you purchased it. If so then generally it is capital and you claim depreciation. The key with any property that you look to improve is to make sure you have a chattels breakdown completed before you do any work. I'll demonstrate this with an example.

When you buy a property you are paying for everything, even an old dishwasher that might be ready for replacement. With a depreciation report a value will be placed on the old dishwasher. When you decide to replace the dishwasher you will not only get to claim on the new dishwasher but you will also be able to claim the value of the dishwasher that is currently in the property as a loss when you dispose of it.

Q- Will I still have to pay depreciation recovery on buildings if I sell my property after 1 April 2011?

A – Probably yes. In most circumstances where you have been claiming depreciation on the buildings you will have to pay some level of depreciation recovery. This is why the removal of building depreciation for people buying property after 1 April 2011 is not so bad. Yes you lose the use of the depreciation during ownership but you will not have to pay depreciation recovery when you sell. For investors that own property during the change date of 1 April 2011, your depreciation claim for buildings after this date will be zero, but when you sell the property in the future you may need to pay depreciation recovery on the buildings for the depreciation you claimed prior to the change.

Q- Last year I did my own tax return as the income did not justify the accounting fees. I did not bother claiming any depreciation as I only owned the property for part of the year. This year there will be a whole year of rental income so it may be worth claiming depreciation. What is the best option?

A – Once you take a position not to claim depreciation in your first tax return you cannot change this and claim in future years. This is why it is important to use an accountant and get correct advice. The most important point here is that you need to ensure if you do not claim depreciation that you have made a written statement declaring the property as a non depreciating asset. If you fail to do this then when you sell the property IRD can deem that the depreciation you were entitled to claim has in fact been claimed and you can be hit with depreciation recovery, DESPITE the fact that you never claimed it. SO make sure if you are not claiming that you have declared this.

Q – With the changes around ownership structures, if I transfer the ownership with this be deemed a sale and therefore incur depreciation recover.

A – In 99% of cases no. The transfer between associated companies will simply see the existing depreciation schedules transfer from the old entity to the new entity.