IR260
April 2024

Depreciation

- a guide for businesses

COVID-19 - Depreciation changes for non-residential buildings

New Zealand allowed depreciation on all buildings until 2011. From the 2011-12 income year depreciation was removed for buildings with an estimated useful life of 50 years or more.

Legislative changes enacted on 25 March 2020, as part of a wider economic recovery package in response to COVID-19, reintroduced building depreciation but only for non-residential buildings (those that are not primarily used for residential accommodation).

Non-residential building

Non-residential building is defined as a building that is not a residential building.

A residential building is defined as a dwelling; and includes a building intended to ordinarily provide accommodation for periods of less than 28 days at a time, if the building, together with other buildings on the same land, has less than 4 units for separate accommodation.

The second part of the definition includes some buildings accommodating short-term stays to ensure there is certainty that the definition of "residential building" includes buildings such as a bach that the owner uses but also rents out for short stays, and also buildings used exclusively for short-stay accommodation provided by owners such as Airbnb properties.

These may be within the definition of 'dwelling', but this puts it beyond doubt these buildings remain non-depreciable.

The less-than four units provision is meant to exclude larger commercial operations such as motels from being treated as a residential building.

Effective date

Depreciation for non-residential buildings was reintroduced for the 2020-21 to 2023-24 income years.

Depreciation rate

The depreciation rate for non-residential buildings was 2% diminishing value or 1.5% straight-line.

From the 2024-25 income year, the depreciation rate for non-residential buildings returned to 0%.

Opening tax book value

The opening tax book value for the beginning of the 2020-21 income year:

- for buildings that were owned by the taxpayer in the 2010–11 income year, will be:
  - the adjusted tax book value at the end of the 2010–11 income year, less fit-out deductions taken under the section DB 65 transitional rule if applicable; plus
  - non-deductible capital expenditure incurred with respect to the building from the end of the 2010–11 income year to the start of the 2020–21 income year.
- for buildings acquired after the end of the 2010–11 income year, will be:
  - the cost of the building; plus
  - non-deductible capital expenditure incurred with respect to the building from the time it was acquired until the beginning of the 2020–21 income year.

Straight-line depreciation

If a taxpayer elects to use the straight-line method, the building's cost for the purpose of calculating the depreciation deduction would be the original cost price. The amount of depreciation is then deducted from the opening tax book value (not original cost) for the 2020–21 and subsequent income years.

Repeal of the 2010 transitional rule

As a result of reinstating depreciation on non-residential buildings, the transitional building fit-out rule introduced as part of the 2010 reforms is no longer required. Section DB 65 has been repealed, and the tax book value of the building will be adjusted for past DB 65 deductions.

Special depreciation rate

The ability to receive a special depreciation rate from the Commissioner was restored for non-residential buildings during the period depreciation was reintroduced.

Introduction

This guide explains how to claim depreciation on your business assets.

You're required to claim depreciation when you acquire an asset for your business and account for it when you dispose of that asset. We recommend you consult a tax agent when considering claiming for depreciation. However, it's still your responsibility to be aware of your tax obligations.

Find the current depreciation rates by:

- using our **Depreciation rate finder**
- checking our **General depreciation rates - IR265** guide.

You'll find both of these at **ird.govt.nz**

The rates are set out in two categories - industry and asset.

For depreciation rates before 1 April 2005, check our **Historic depreciation rates - IR267** at **ird.govt.nz**

ird.govt.nz

Go to our website for information and to use our services and tools.

- **Log in or register for myIR** - manage your tax and entitlements online.
- **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** - download our forms and guides.

Forgotten your user ID or password?

Request these online from the myIR login screen and we'll send them to the email address we hold for you.

How to get our forms and guides

You can get copies of our forms and guides at **ird.govt.nz/forms-guides**

How to use this guide

Part 1 - Overview

Explains how depreciation works and how to calculate it.

Part 2 - Detailed information on certain assets

Gives detailed information on certain assets of particular interest.

Part 3 - Adjustments and disposals

This part looks at different circumstances from adjusting for business or private use, transferring, selling or disposing of assets to applying for different rates for an asset.

Part 4 - Services you may need

A list of Inland Revenue services.

Glossary

This lists and explains many of the words and terms we use in this publication.

Note

In legal terms, depreciable intangible assets, depreciable assets, excluded depreciable assets, fixed-life depreciable assets and intangible assets are known as 'property'. In this guide we refer to them as assets to avoid confusion, because the term 'property' more commonly relates to land and buildings.

The information in this guide is based on the tax laws at the time of printing.

Contents

COVID-19 - Depreciation changes for non-residential buildings **2**
Non-residential building 2
Effective date 2
Depreciation rate 2
Opening tax book value 2
Straight-line depreciation 2
Repeal of the 2010 transitional rule 2
Special depreciation rate 2
Introduction **3**
ird.govt.nz **3**
How to get our forms and guides **3**
How to use this guide **3**

Part 1 - Overview **5**
Main features of depreciation law 5
Compulsory depreciation claims 6
Electing not to depreciate 6
How to make an election not to depreciate 7
Assets that do not depreciate 7
Who can claim depreciation? 7
Cost of assets for depreciation purposes 8
GST and depreciation 8
Records 8
Individual or pooled assets 8
Diminishing value (DV) method 8
Straight line (SL) method 9
Changing methods 9
Pooling method 9
Rates 11

Part 2 - Detailed information on certain assets **12**
Buildings 12
Resource consents 13
Land 13
Leased assets 14
Renting out a residential property 15
Holiday homes 16
Intangible assets 16
Computer software 20
Reservation of title clause (also known as Romalpa clause) 21
Low value assets (including loose tools) 21

Part 3 - Adjustments and disposals **22**
Newly acquired assets 22
Transferring depreciable assets between associated persons 24
Private assets becoming business assets 24
Disposals 24
Transferring assets under a relationship agreement 28
Transferring depreciable assets between 100% group companies 28
Council-controlled organisations 28
Determinations 29
1994 to 2005 rates 30
2006 and future years 30
Disputable decisions 31
Special depreciation rates 31
How we set a special rate 31
Provisional depreciation rates 32
Higher maximum pooling values 33
Deductions for assets you no longer use 34

Part 4 - Services you may need **35**
Need to speak with us? 35
Supporting businesses in our community 35
0800 self-service number 35
Tax Information Bulletin (TIB) 35
Privacy 35
If you have a complaint about our service 35
Glossary **36**

Part 1

Part 1 - Overview

Depreciation allows a deduction for capital expenditure, where a deduction wouldn't normally apply and acknowledges that the asset will eventually wear out or become outdated.

For tax purposes, the reduced value of an asset is recognised by allowing a deduction against income for the depreciation of that asset from the time it is used in a business until it is sold, disposed of or discarded.

This means the cost of the asset will be written off over its useful life. Once the whole cost price of the asset has been written off, no further deduction is allowed.

When you calculate your depreciation deduction it's important to remember:

- the date you acquired the asset, since this determines which rates are available to you
- which industry and/or asset category best describes your depreciable asset.

Main features of depreciation law

From the 1994 income year, depreciation law relates to all depreciable assets regardless of the date you acquired them.

- You must make depreciation deductions each year, unless you make an election not to treat a particular asset as depreciable.
- You can only claim a depreciation deduction once you own the asset and it's used or available for use in deriving your gross income or in carrying on a business that aims to generate your gross income.
- Depreciation is calculated according to the number of months in an income year you own and use the asset. A daily basis applies to certain assets used in the petroleum industry.
- From the 2011-12 income year, depreciation on buildings reduced to 0% for buildings with an estimated useful life of 50 years or more. This applies to both commercial and residential properties including leasehold property. For more information see page 12.

  Note

  For the 2021 to 2024 income years, depreciation on non-residential buildings was reintroduced. It returned to 0% from the 2024-25 income year.

  For more information see page 2 of this guide.

- You may not claim depreciation in the year you dispose of any asset, unless it's a building.
- Although the general depreciation rates are set by a formula, you can apply for a higher or lower special depreciation rate if you can establish the general rate is unsuitable for your particular circumstances.
- Higher depreciation rates, previously available for assets used for multiple shifts, do not apply to assets acquired after 1 April 1993.
- Expenditure for repairs and maintenance can be claimed as a deduction through business accounts. Anything more than repairs or maintenance is capital expenditure and is not deductible, but will be subject to normal depreciation rules.
- In general terms the depreciation rate options available are as follows:
  1. You must use the general rates set out in determinations we issue. For assets acquired on or after 1 April 2005 and buildings acquired on or after 19 May 2005, use the rates listed in the IR265 guide.
  2. For assets acquired between the 1996 income year and 31 March 2005 (or 18 May 2005 for buildings, including contracts of purchase entered into before 19 May 2005) use the rates listed in parts 2 and 3 of the IR267 guide.
  3. For assets acquired on or after 1 April 1993, and before the end of the 1995 income year, you can use either the rates listed in parts 2 and 3 of the IR267 guide or the rates listed in part 1 of this guide plus 25% interim loading and any shift allowances.
  4. Generally, for assets acquired before 1 April 1993 you must use the depreciation rates listed in part 1 of the IR267 guide.
- Both straight line and diminishing value methods are available for calculating depreciation on most assets and you can switch freely between the two.
- Assets that cost or have an adjusted tax value of $5,000 or less can be depreciated collectively, rather than individually, using the 'pool' depreciation method (refer also next bullet for low value assets).

- Generally low value assets can be written off in the year of purchase or creation based on the following thresholds.

Up till 16 March 2020	Up to $500
17 March 2020 to 16 March 2021	Up to $5,000
From 17 March 2021	Up to $1,000

- Certain intangible assets first used or available for use after 1 April 1993 have been brought into the depreciation system. Intangible assets with a fixed life must be depreciated using the straight line method.
- Gains on sale or disposal must be recognised in the year of sale. Losses on sales of depreciable assets, other than buildings, are deductible in the year of sale.
- There are restrictions on the depreciation deductions that can be made to depreciable assets transferred between associated parties.
- From 1 April 1997, only those companies that are 100% commonly owned and that choose to consolidate are able to transfer assets within their group at the assets' adjusted tax value. Wholly owned companies which do not form a consolidated group are required to transfer assets at market value and recover or claim a loss of depreciation as applicable.
- You may be able to write off the residual tax value of any depreciable asset that you no longer use to derive gross income.
- Some assets cannot be depreciated for income tax purposes either because they are specifically exempted (for example, land or trading stock) or they do not reduce in value over time (for example, Lotto franchise fees).
- A depreciation loading no longer applies for assets acquired after 20 May 2010. The loading will only apply to qualifying assets:
  - acquired on or before 20 May 2010, or
  - where a binding contract existed on or before 20 May 2010.

Compulsory depreciation claims

You must claim the amount of depreciation you are entitled to unless you elect an asset not to be depreciable property. It's usually not possible to defer or only partially claim allowable depreciation.

If no depreciation deduction is claimed and no election is made, you're considered to have claimed depreciation for the purposes of calculating the adjusted tax value of the asset and when calculating the depreciation recovered, see 'Disposals' on page 25.

If you do not claim depreciation in your tax return, the adjusted tax value of the asset will still be reduced by the amount calculated using the appropriate method. The default method for calculating depreciation is diminishing value.

For depreciation recovery purposes, where the depreciable asset is disposed of for more than the adjusted tax value, then the taxable income will be the lesser of:

- the previously allowed depreciation (including deemed to be allowed), or
- the amount by which the amount received exceeds the adjusted tax value.

For assets purchased before the 1994 income year, and depending on the disposal amount, the depreciation recovered is the actual depreciation permitted under the old system (when the depreciation deduction was not compulsory) plus the allowable depreciation for the 1994 and subsequent income years.

Taxpayers do not have to have claimed extra depreciation on excluded depreciable assets (generally, meaning assets purchased before 1 April 1993). This extra depreciation is allowed as either:

- a supplementary depreciation allowance, or
- a 25% interim loading.

Electing not to depreciate

Although it's compulsory for you to claim a depreciation deduction, we recognise there can be instances where you may not want to.

If you do not want to claim depreciation on an asset, and you want to avoid paying tax on depreciation recovered when it was not claimed, you should elect not to treat the asset as depreciable.

You cannot pick and choose the years in which you depreciate an asset. However, if an asset periodically will be and then will not be used in your business (such as a residential building that is temporarily let), you may choose whether or not to depreciate the asset in each period. Our **Rental income - IR264** guide discusses this option in more detail.

If you elect not to depreciate your asset, it will no longer be a depreciable asset and the depreciation recovery or loss on sale provisions will not apply to it.

How to make an election not to depreciate

You'll need to let us know if you're making an election by attaching your notification to your tax return for the income year that you:

- purchase the asset, or
- changed the asset use from non-business to business, or
- elect not to depreciate an asset that you've not claimed depreciation on in any previous year.

This election will then apply to every year from when the asset was purchased.

Your notification needs to provide the following details:

- a description of the asset
- the purchase date
- the income year the election is being made for
- whether the asset has been newly acquired or its use has changed if the election is for retrospective depreciation.

Assets that do not depreciate

Some assets do not depreciate for tax purposes. These assets include:

- those you've elected to treat as not depreciable
- trading stock
- land (except for buildings, fixture or land improvements as specified in schedule 13 of the Income Tax Act 2007)
- financial arrangements under the accrual rules
- intangible assets, for example, goodwill (other than depreciable intangible assets of the type listed in schedule 14 of the Income Tax Act 2007)
- low-value assets that are fully written off on acquisition
- an asset whose cost is allowed as a deduction under some other tax provision
- an asset that does not decline in economic value because of compensation for loss or damage
- an asset whose cost was or is allowed as a deduction in any income year to any other taxpayer under any of the special provisions relating to primary sector land improvements.

Who can claim depreciation?

A depreciation deduction for a particular asset is only allowed once you own the asset and it's used or available for use in deriving your gross income or in carrying on a business that aims to generate your gross income.

Ownership

You're considered to own an asset when:

- you acquire legal title (binding contract), or
- you take up beneficial ownership, which occurs when an asset passes by way of gift, bequest or distribution to a new owner.

Where there is both an equitable owner and a legal owner of the same asset, depreciation may only be claimed by the owner who uses the asset or has that asset available for use in deriving their gross income or in carrying on a business that aims to generate their gross income.

So, to claim a depreciation deduction for an asset, you must:

- own it, or
- lease it under a specified or finance lease (see page 15), or
- be buying it under a hire purchase agreement.

Your asset must also be expected to reduce in value while it's used or is available for use in your business.

Used or available for use

The following are some examples of the criteria of 'used' or 'available for use'.

- You cannot start claiming depreciation on any equipment purchased until your business commences.

Example

In April 2014, Enid purchases equipment in anticipation of setting up a home tutoring business but does not start the business until March 2015. The depreciation deduction for Enid's 2015 income year is restricted to one-twelfth of the yearly depreciation rate.

- Cargo ship in dry docks - conducting normal ongoing maintenance is an ordinary incidence of business and the ship would still be wholly used or available for use in carrying on the business.
- Plant and machinery finished and awaiting other plant - depending on the facts, if the completed plant and machinery were available for use in isolation or in another production line if required,

the depreciation could be claimed. However, if a further machine or plant was required in order to produce a product, depreciation could not commence until that other necessary plant or machinery was available for use.

- Plant and machinery in storage - this depends on the degree and time of reconnection or installation required. If the item (for example, a transformer) were a back-up piece of equipment necessary to keep an operation going, it would be regarded as being available for use and would be depreciable. However, if a new piece of machinery or a new plant were being delivered and had yet to be installed (for example, being shipped in from offshore) there would be no entitlement to depreciation until the installation process was completed.

Assets temporarily out of operation for repair or inspection are regarded as being available for use and can be depreciated.

Cost of assets for depreciation purposes

Generally, the cost of an asset is the amount paid by the purchaser - normally the market value - and this principle applies to associated persons. For further information on transfers between associated persons see page 25.

If the property has been inherited, the cost price for depreciation purposes is its market value at the time the property is transferred to the new owner. The exception is for a spouse, civil union partner, or de facto partner where transfer is at cost or adjusted tax value.

For income tax purposes a deduction is not usually available for expenses incurred in acquiring a capital asset. This includes legal fees charged by a solicitor for preparing and registering the various documents relating to the purchase.

From the 2010 income year business-related legal expenses for buying or selling a property can be deducted. This is provided your total legal expenses for the income year, including the fees associated with buying and selling a property, are equal to or less than $10,000.

In all other cases, this type of expenditure may be added to the cost of the purchased asset when calculating depreciation on that asset.

The depreciation you calculate each year is deducted from the value of your asset. The remaining value is called the asset's adjusted tax value.

GST and depreciation

If you're registered for GST (goods and services tax), you can generally claim a credit for the GST part of an asset's cost price. You calculate depreciation on the GST-exclusive price of the asset.

If you are not registered for GST, you base your depreciation on the actual price you pay for an asset, including GST.

Records

As with all tax matters you must keep sufficient and accurate records. For depreciation purposes, your records must be able to substantiate your depreciation claims, purchases and sales of your business assets so, if we need to, we can check your deductions (including losses) and depreciation recovered. You must keep your records for at least seven years.

Individual or pooled assets

You can account for depreciation on your assets in two ways, as an individual asset or as part of a group or pool of assets. See 'Pooling method' in the next column.

If you choose to calculate depreciation on individual assets you can use either the diminishing value (DV) method of calculating depreciation or the straight line (SL) method. If you decide to group your assets into a pool you must use the DV method for calculating depreciation.

Diminishing value (DV) method

With this method depreciation is calculated each year by using a constant percentage of the asset's adjusted tax value. This method is sometimes also referred to as the written down value or tax book value. The DV method means your depreciation deduction will progressively reduce each year.

Example

Depreciation on office equipment that cost $10,000 was calculated using the DV depreciation rate of 33%. The depreciation is calculated as follows:

	Adjusted tax value	Depreciation of 33%
Year 1	$10,000	$3,300
Year 2	$6,700	$2,211
Year 3	$4,489	$1,481

Straight line (SL) method

With this method an asset depreciates every year by the same amount, which is a percentage of its original cost price. This method is sometimes called the cost price basis.

Example

Depreciation on office equipment that cost $10,000 was calculated using the SL depreciation rate of 24%. The depreciation is calculated as follows:

	Adjusted tax value	Depreciation of 24%
Year 1	$10,000	$2,400
Year 2	$7,600	$2,400
Year 3	$5,200	$2,400

Changing methods

You can choose to use either the SL or DV method for individual assets (except for pooled assets and fixed-life intangible assets) regardless of when you bought the assets. If you decide to change depreciation methods, use the current adjusted tax value to calculate depreciation and not the original cost price of the asset.

Once you've filed your tax return you cannot change methods for that income year.

Pooling method

The pooling method allows you to group together (pool) a number of low-value assets and calculate depreciation on the pool. The advantage of pooling assets is the cost of compliance is reduced because all the assets in the pool are treated as one asset for the purposes of depreciation.

The disadvantage of pooling assets is that if you sell an asset in a pool for more than its cost price, this capital gain amount must be included as taxable income.

Main features of the pooling method

- Only diminishing value (DV) rates can be used for the pool method.
- Where items in the pool have different depreciation rates, the lowest rate is applied to the pool.
- Buildings cannot be depreciated using the pooling method.
- The maximum pooling value is generally $5,000 for each individual asset, but you may apply for a higher pooling value for specific assets - see page 33.
- For GST-registered people, the maximum pooling value excludes GST.
- The maximum pooling value of $5,000 applies from the 2015-2016 income year. The maximum pooling value is $2,000 prior to this. All poolable assets must be used wholly in business (no private use), or be subject to FBT (fringe benefit tax).
- Once an asset is included in a pool it cannot be separated out later, except where the asset must be isolated because you now use it privately.
- There is no restriction on the depreciation recovered for a pooled asset. Any capital gains are taxed - see page 26.
- When all assets in a pool have been disposed of but the pool still has a positive value, ie, the proceeds of the sale are less than the pool value, this remaining value of the pool is deductible from your gross income.

Calculating depreciation for an asset pool

Assets can only be pooled if individual assets within the pool each have a value equal to or less than the maximum pooling value. This maximum is currently set at $5,000, so assets that can be pooled are those that:

- individually cost you $5,000 or less, or
- have depreciated and whose adjusted tax value has been reduced to $5,000 or less.

Example

Hiram bought a printing machine for $5,500 and calculated depreciation using the DV method.

Cost	Depreciation 10% DV	Adjusted tax value at the end of year
$5,500	$550	$4,950

Hiram could include the printing machine in a pool of assets for the second year.

If your assets meet this requirement, you may pool any number of them and you may have as many pools as suit your circumstances. You can also combine two or more pools to form one pool.

Note

The maximum pooling value of $5,000 applies from the 2015-2016 income year. The maximum pooling value is $2,000 prior to this.

Depreciation is calculated on the average value of the pool for the income year, using the DV method.

Work out the average value of the pool by adding together the pool's value at the beginning and end of the income year, before depreciation has been deducted, and then dividing by 2.

Example

Adam has a pool of assets with an adjusted tax value at the beginning of the year of $18,000. During the year he purchases three assets for $5,000 each. At the end of the year, he decides to include them in the pool. The value of the pool at the end of the income year (before deducting depreciation) is $33,000.

The average pool value is:

$$\frac{\$18,000 + \$33,000}{2} = \$25,500$$

Adam is using the DV rate of 22%, so the depreciation deduction and the adjusted tax value of the pool will be calculated as follows:

Value of pool at the end of income year		33,000
Less annual depreciation ($25,500 x 22%)	-	$5,610
Adjusted tax value of pool		$27,390

Where your income year is longer or shorter than 12 months because of a change in balance date, you'll need to apportion the annual depreciation to the number of whole or part months in your income year.

When the assets in the pool have different depreciation rates you must use the lowest rate.

This could happen when different types of assets are included in a pool.

Example

Richard owns a shop and these are some of his assets that he could pool.

Cash register	40% DV
Electric sign	20% DV
Fittings	20% DV
Furniture	20% DV

The rate for this pool would be 20% DV.

In a case such as this, Richard may decide to pool only those assets with the 20% DV depreciation rate and account for depreciation on the cash register separately or as an asset in another pool.

In the first year of pooling, it's very important to carefully consider the date from which you'll pool your assets, because it will have a significant effect on the average pool value used when calculating depreciation.

If you decide to pool your assets part-way through an income year, the pool value at the beginning of the income year will be nil. The amount of depreciation you can claim will be based on half the pool value at the end of the income year.

Example

Anne starts a business on 15 May 2013 and purchases five assets for $2,000 each, which she pools. She has a 31 March balance date and uses a depreciation rate of 20% DV.

Her 2014 depreciation deduction is calculated as follows:

Calculate average pool value:

Pool value at beginning of year (1 April 2013)	nil
Pool value at end of year (31 March 2014)	$ 10,000
Divide by 2 to average	$ 5,000

Calculate annual depreciation:

$$\frac{\$5,000 \text{ x } 20\% \text{ x } 11 \text{ months}}{12} = \$916.66 \text{ depreciation}$$

(The 11 months is 15 May 2013 to 31 March 2014.)

Adding assets to a pool

The adjusted tax value of an existing pool is increased by:

- the cost price of the asset (if it's newly acquired), or
- the adjusted tax value of the asset (if it was previously depreciated separately).

If assets are added to the pool at the beginning of an income year, the pool values at both the beginning and end of the year will increase. If the assets are added to the pool part-way through the income year, only the pool value at the end of the year will increase.

Rates

Once you've decided on the method (or methods) you'll use to account for depreciation, you have to identify the correct rate for calculating the amount of the deduction. The correct depreciation rate to use depends on the date you acquired the asset.

To find the depreciation rates for all depreciable assets acquired after 1 April 1993, use our depreciation rate finder at **ird.govt.nz/depreciation**

For assets acquired on or after 1 April 2005 and buildings acquired on or after 19 May 2005, use the rates listed in the IR265 guide. For all assets acquired before these dates refer to our IR267 guide. These guides are available on our website **ird.govt.nz**

Loading

Any asset purchased from 21 May 2010 onwards is not entitled to the 20% depreciation loading. If you entered into a contract to purchase an asset on or before 20 May 2010, you can still depreciate this asset with the loading. Any asset being depreciated at a rate with loading before 21 May 2010 can continue to be depreciated at that rate for that asset's lifetime. However, if there is a capital improvement to an asset with the 20% loading, this improvement will need to be depreciated separately from the original asset, and will be depreciated without the loading allowance.

Provisional and special rates

If we haven't set a general depreciation rate for your particular type of asset, you may apply for a provisional rate to be set - see page 32.

General depreciation rates are based on the average use of an asset. If you believe you use your asset more heavily or less heavily than is generally the case, or the conditions in which the asset is used are abnormal, you may want to apply for a special rate - see page 32.

How rates are calculated

If you'd like to know how we work out the general rates for assets see page 30.

Part 2 - Detailed information on certain assets

This section provides further information on certain assets of particular interest.

Buildings

From the 2011-12 income year, depreciation on buildings reduced to 0% for buildings with an estimated useful life of 50 years or more. This applies to both commercial and residential properties, including leasehold property. If the type of building you own currently has an estimated useful life, as determined by Inland Revenue, of less than 50 years you can simply continue to claim depreciation deductions as you have previously.

Note

From the 2021 to 2024 income years depreciation on non-residential buildings was reintroduced. It returned to 0% from the 2024-25 income year.

For more information see page 2 of this guide.

Even though many buildings can no longer be depreciated, depreciation recovery will still apply for those buildings when they're sold for greater than their book value. This applies regardless of when the building was acquired.

The chattels and fit-out of a building, where it does not form part of the building, can still be depreciated. **Interpretation statement (IS) 10/01: Residential rental properties - Depreciation of items of depreciable property** sets out a three-step test that we apply to determine whether an item can be separated out or whether it's regarded as being part of the building. You can find this in our **Tax Information Bulletin (TIB), Vol 22, No 4 (May 2010)**. Further information on the treatment of commercial or industrial building fit-outs, 'Clarifying that certain building fit-out is depreciable property', is available in **Tax Information Bulletin (TIB), Vol 23, No 1 (February 2011)**.

These special rules also apply to buildings.

- When disposing of a building a loss cannot be claimed as a deduction, except where due to an emergency event, eg, earthquakes, floods and other natural disasters, the building has been rendered useless for the purposes of deriving income and is demolished. See 'Event' page 36.
- Buildings cannot be pooled.
- Depreciation on buildings, unlike other assets, can be claimed in the year of sale.
- Buildings do not qualify for the increased loading of 25% on the historic rates or 20% on the general rates.
- Buildings are not eligible for the special deduction for assets you no longer use - see page 34.
- Generally, when a personal (non-business) asset is introduced into a business, the market value at that time is used to calculate depreciation. This rule does not apply to buildings, where the original cost (excluding land) must be used for calculating depreciation.
- Buildings transferred between companies where there is 100% common ownership or transfers under a relationship agreement can continue to use the depreciation rate applying to the building at the time of transfer.

Depreciation claims on buildings acquired before the 1994 income year must be calculated using the SL method. However, you can choose between the SL and the DV methods to calculate depreciation for the 1994 and future income years for assets acquired before 1 April 1993.

Depreciation on buildings is calculated on either the original cost or the adjusted tax value depending on which depreciation method you use. The first time you use the DV method you need to calculate the adjusted tax value of your building. The building's depreciation is calculated on this amount. To work out the adjusted tax value, deduct the amount of depreciation you've claimed since you bought the building, from the original cost of the building (excluding land).

Sale of buildings

When a building is sold for more than its adjusted tax value, the depreciation recovered is taxable income. The amount of depreciation recovered is the smaller of:

- the original cost price of the building minus the adjusted tax value
- the sale price minus the adjusted tax value.

This ensures any capital profit made on the sale of a building is not included as taxable income. Losses made when selling or disposing of buildings are generally not deductible.

Definition of a 'building'

The term 'building' can have various meanings depending on the context in which the term is used.

A building in ordinary circumstances is defined as:

- a structure of considerable size
- permanent in the sense that it's intended to last a considerable time
- enclosed by walls and a roof
- able to function independently of any other structure. However, a building is not necessarily a physically separate structure.

Interpretation statement (IS) 22/04: Claiming depreciation on buildings provides guidance to building owners on claiming depreciation on buildings. It considers the meaning of 'building' for depreciation purposes and the distinction between residential and non-residential buildings. You can find this at **taxtechnical.ird.govt.nz**

Resource consents

The ability to depreciate expenditure on a resource consent depends on the type of expenditure, the type of consent and the resulting asset.

Interpretation Statement (IS) 18/06: Income tax – Treatment of costs of resource consents provides a full treatment of these issues and when expenditure on resource consents may be depreciable. You can download this statement from our website **ird.govt.nz**

Land

You cannot claim depreciation on land because land, generally, does not depreciate.

When land and buildings are purchased and the price does not specify the cost of the buildings, the government valuation (at the time of purchase) may be used to calculate this cost:

$$\frac{\text{Value of improvements (buildings)}}{\text{Capital value (land and buildings)}} \times \text{purchase price} = \text{cost of buildings}$$

Land improvements

Land improvements, however, may depreciate, and since 1 April 1993 there has been the provision for specific fixtures on the land (non-primary sector land) to be depreciated.

These fixtures as listed in schedule 13 of the Income Tax Act 2007 are:

- airport runways
- bores and wells
- bridges
- chimneys
- culverts
- dams
- fences
- hardstanding (for example, asphalt car park)
- pipes
- purpose-built surfaces for outdoor sports facilities
- reservoirs
- retaining walls
- roads
- spillways
- swimming pools
- tanks
- tunnels
- wharves.

In the same manner as plant and machinery, these fixtures are depreciable at the general rates if made in the 1996 and later income years. They also qualify for the 20% loading if made in the 1996 income year and before 21 May 2010.

Expenditure on farm and forestry land and aquaculture improvements

Although land is not a depreciable asset, there are provisions allowing you to progressively deduct expenditure incurred in preparing or otherwise developing land within the farming, agriculture, forestry and aquaculture industries. This differs from the depreciation of other land improvements.

- While depreciation is subject to the period the asset was used during the financial year, the deduction for the development expenditure is not time based. You can claim the full percentage of the deduction (plus any loading) even if the development expenditure occurs near the end of the financial year, provided the expenditure benefits the business in that income year.
- Deductions are allowed for losses on farm land improvements where an event has occurred either destroying or rendering the improvements useless for deriving income.
- When the land is sold there is no taxable recovery of any deductions allowed for the capitalised development expenditure.

- When the land is sold the undeducted balance of the development expenditure can be transferred to the new owner. The capitalised development expenditure effectively stays with the land, rather than with the person who incurred it.

We recommend you consult a tax agent when considering this.

Taxpayers involved in the primary sector may claim depreciation for assets listed in schedule 13. However, they may only do so when they cannot claim the expenditure under section DO 1 or DO 2 or schedule 20 of the Income Tax Act 2007.

To read tax legislation online, go to **legislation.govt.nz**

The following are some examples of the specific provisions applying to farming and agriculture (schedule 20 of the Income Tax Act 2007) for land improvements.

Clearing land

The expenditure incurred in clearing land is deductible in the year it was incurred.

Cultivating land

The expenditure incurred in cultivating land is deductible on a DV basis (similar to depreciation) at the rate of 5% each year. Expenditure incurred between 16 December 1991 and the end of the taxpayer's 1995 income year qualifies for a 25% loading, ie, 6.25%. Expenditure incurred in the 1996 or any subsequent income year (up until 1 April 2013) qualifies for a 20% loading, ie, 6%.

Irrigation system and plant

This is capital expenditure so normal depreciation rules apply.

Installing tile drains

This is deductible on a DV basis at the annual rate of 5% (plus any loading). This same rate would apply to the cost of replacing a tile drainage system. The fact that the retiling may be done over a period longer than one year does not affect the deduction that can be claimed.

A loss cannot be claimed on the old system because it's scrapped, nor can a continued deduction be made for the old system since the asset is no longer of benefit to the business.

Sinking a bore

This is deductible on a DV basis at the rate of 5% (plus any loading) each year.

Regrassing and fertilising

Expenditure incurred in connection with significant capital activity, such as a change from one type of farming to another, is deductible on a DV basis at the rate of 45% each year.

Leased assets

For tax purposes there are four kinds of lease. The type of lease determines whether the lessor (owner) or the lessee (person paying to use the asset) is entitled to claim depreciation on the asset.

Specified leases

A specified lease is a lease agreement entered into between 6 August 1982 and 19 May 1999 that meets certain criteria. The lease is a specified lease if:

- it has a guaranteed residual value, or
- the lease term is more than 36 consecutive months (or, if we consider the economic life of the asset is less than 36 months, a term equal to the economic life of the lease asset), and
  - the lessee becomes the owner at the end of the term, or
  - the lessee has the option to purchase the asset at the end of the term at a price significantly lower than market value, or
  - the total of all payments and the guaranteed residual value is more than, or roughly equal to, the cost price, or
  - both parties agree the lessee is liable for the payment of all, or nearly all, maintenance and other incidental costs.

Specified leases include:

- leases acquired by any means whatsoever, whether from the lessor or another person, and
- leases entered into between 28 October 1983 and 19 May 1999 (both dates inclusive) if a person other than the lessee acquires the asset and they are associated with the lessee.

A 20% depreciation loading applied to farming and agriculture land improvements acquired before 1 April 2013.

Finance leases

A finance lease is an agreement entered into on or after 20 May 1999 under which:

- ownership of the asset is transferred to the lessee (or an associate of the lessee) at the end of the term, or
- the lessee (or an associate of the lessee) has the option of acquiring the asset for an amount significantly lower than market value, or
- the lease term is more than 75% of the asset's estimated useful life (as determined under section EE63 of the Income Tax Act 2007).

For income years including 20 June 2007 and later income years, the lease, or an arrangement of which the lease is part, must:

- involve the use of the lease asset outside New Zealand for all or most of the term of the lease, and
- involve income from the use of the asset by any person other than the lessor which is exempt, excluded or non-residents' foreign sourced income, and
- be an arrangement in which substantially all the risks and rewards that are incidental to ownership are incurred by persons other than the lessor and/or it's a finance lease under NZIAS 17 either for the lessor or for another company in the same group of companies that derives assessable income from the arrangement.

With both specified and finance leases, the lessor is treated as selling the asset to the lessee at the beginning of the lease. Therefore, the lessee is the owner and is entitled to the deduction for depreciation.

Hire purchase

A hire purchase agreement passing ownership to the person paying the hire purchase allows that person to claim any allowable depreciation. This provision overrides the general provision that limits the claim to the owner of the asset.

Leasehold improvements

A lessee is considered to own and be entitled to claim depreciation on the cost of leasehold fixtures or improvements incurred by that lessee, but under land law principles are technically owned by the lessor.

When the lease expires, to calculate the loss on disposal, the lessee is considered to have disposed of the fixture or improvement.

The lessor, including subsequent lessors, will not be able to depreciate such fixtures or improvements during the term of the lease.

However, once the lease has expired, the lessor will be able to depreciate the fixtures and improvements if they have paid the lessee for these.

This also applies when the lessee transfers the lease and the person the lease is transferred to pays the original lessee for the leasehold improvements. The same applies to licences to occupy.

Non-specified and operating leases

If a lease was entered into between 6 August 1982 and 19 May 1999 and it is not a specified lease, it's known as a non-specified lease. If the lease was entered into on or after 20 May 1999 and it is not a finance lease, it's an operating lease. For these kinds of leases, the owner (lessor) of the lease asset claims the deduction for depreciation.

Renting out a residential property

You must claim depreciation on a house or flat you're renting out as a deduction from the rent you receive, unless you make an election for the asset not to be a depreciable asset. You must also claim depreciation on any contents in the house or flat being used or available for use by the tenants, unless you elect otherwise - see page 6.

Depreciation rules for the house itself are covered under 'Buildings' on page 12. The contents of the house may be depreciated either on an individual item basis or using the pooling method - see page 9. If you're calculating depreciation on contents for the first time, the adjusted tax value will be the lesser of the cost of those items or their market value at the time they're first used or available for use in earning rental income.

The rates for house or flat contents are set out in the industry category 'Residential rental property chattels'. You can find this in our depreciation rate finder on **ird.govt.nz/depreciation**

Or, you can use our guides IR265 for chattels acquired on or after 1 April 2005, and the IR267 for chattels acquired on or after 1 April 1993 and up to 31 March 2005.

Depreciable item distinct from the building

If an item in a residential rental property is distinct from the building and meets the definition of 'depreciable property', it may be depreciated separately. If an item is part of the building it cannot be depreciated separately, but can be depreciated with the building.

It's important that the correct approach is applied to determine if these items are regarded as distinct from the building. To determine whether a particular item is part of or separate from the building there is a three-step test.

1. The item is in some way attached or connected to the building.
2. The item is an integral part of the residential rental property, so it wouldn't function as a rental without it.
3. The item is built-in or attached/connected in such a way that it's part of the 'fabric' of the building.

Full commentary on **Interpretation statement (IS) 10/01: Residential rental properties - Depreciation of items of depreciable properties** can be found in the **Tax Information Bulletin (TIB), Vol 22, No 4 (May 2010)**.

For more information, read our IR264 guide. It explains the taxable income and deductible expenses for people who own rental property.

Holiday homes

Where a holiday home is considered to be a 'rental' property, depreciation may be claimed. The proportion of depreciation claimed on the assets will vary depending on the degree of actual rental time.

The facts of a particular case always need to be considered carefully and so it may be necessary to seek advice from a tax advisor before making any claim for depreciation or other expenses on a holiday home.

You can find more information on income tax treatment of holiday homes in the **Tax Information Bulletin (TIB), Vol 21, No 3 (May 2009)**.

Intangible assets

Depreciating intangible assets

Certain intangible assets have been included in the depreciation rules, and can be depreciated under the general rules applying to other depreciable assets. The only difference is that the rules apply to intangible assets acquired or created on or after 1 April 1993, rather than from a taxpayer's 1994 income or non-standard balance date accounting year.

Intangible assets acquired or created after 1 April 1993 that are depreciable, intangible property, are limited to those listed in schedule 14 of the Income Tax Act 2007 and they all **have a finite useful life** that can be estimated with a reasonable degree of certainty on the date of creation or acquisition.

In brief, the intangible assets covered by schedule 14 are:

- a patent, or the right to use a patent
- the right to use a copyright, trademark, design, plan or similar
- the right to use land, plant or machinery
- software copyright
- management rights and licence rights created under the Radiocommunications Act 1989
- consents granted under the Resource Management Act 1991
- copyright in a sound recording
- plant variety rights, or the right to use them.

To be depreciable, an intangible asset must be both:

- an asset of the type listed in schedule 14
- an asset that might reasonably be expected to decline in value under normal circumstances.

The most common feature of the assets listed in schedule 14 is the 'right to use'. Take, for example, costs incurred in designing and producing a logo. A logo is not listed in the schedule so the costs are considered to be a one-off capital cost and not depreciable. If the logo, once created, is then trademarked and the rights to use are sold, the purchaser can depreciate those rights.

The depreciation rules vary according to whether or not intangible assets have a fixed life or an economic life.

Intangible assets with a fixed life

An intangible asset with a fixed life is any intangible asset that is depreciable with a legal life that could reasonably be expected, on the date of creation or acquisition of that asset, to be the same length as the asset's remaining estimated useful life.

If an intangible asset falls into this category, the depreciation rate is self-assessed by the owner using the formula:

$$\frac{1}{\text{Legal life (years)}}$$

Part 2

In such cases the 'legal life' is defined as the length of time the intangible asset may exist as specified by the contract or statute that created it. In addition, legal life will include any renewal or extension period where those renewals or extensions are essentially unconditional, or conditional on the payment of a predetermined fee.

The formula gives an SL depreciation rate.

The SL method is the only depreciation method that can be used for fixed-life intangible assets. Intangible assets with a fixed life are not eligible for the 20% loading that applies from the 1996 income year until 20 May 2010.

Example

Mark acquired the right to use a registered trademark from 1 April 2006 with a value of $10,000 and a legal life of five years. Using the above formula, the depreciation rate Mark would use is:

$$\frac{1}{5} = 0.2 \text{ or } 20\%$$

Mark can claim a $2,000 deduction for depreciation each year.

Note

A special depreciation rate may be applied if the economic life is different from the legal life of the intangible asset.

Intangible assets with an economic life

If the intangible asset does not have a fixed life, it can be expected to have an economic life shorter than its legal life. Unlike fixed-life intangible assets, economic-life intangible assets are depreciated using the same methods applied to all tangible depreciable assets, ie, a DV or SL depreciation rate. They can be pooled and, if purchased between 1996 and 20 May 2010, are eligible for a 20% loading. Taxpayers can also apply for a special or provisional depreciation rate for economic life intangibles. For example, a taxpayer may obtain a licence to use computer software for life, whereas the economic life of that software would possibly only be three years.

Franchises

Franchise agreements are not a category of intangible assets listed in schedule 14 so they are not normally considered to be depreciable intangible assets.

However, any particular franchise agreement may give rise to specific rights listed in schedule 14, for example, the right to use a trademark. Remember, the rights are the depreciable intangible assets, not the franchise agreement.

If a franchise agreement stipulates a mixture of rights, and one particular right is specifically listed in schedule 14 and is capable of being separately and clearly isolated and valued, that right will be a depreciable intangible asset, provided it might reasonably be expected to decline in value under normal circumstances.

Whether or not the rights conferred under a franchise agreement are considered to be the type listed in schedule 14, they will not be depreciable if any of the following situations apply:

- You cannot estimate with any reasonable degree of certainty a finite and defined period of life.
- The rights are not expected to decline in value over their life.
- The payment is made to purchase goodwill rather than the rights to secret formulas, processes, trademarks or similar.

If a right conferred under a franchise agreement is depreciable, it will usually have a legal life equivalent to its estimated useful life. Accordingly, it must be depreciated using the SL method as an intangible asset with a fixed life.

If a right conferred under a franchise agreement is automatically renewed or the right to renewal is only subject to the payment of a predetermined fee, the legal life of that right will be equal to the full term of the agreement, assuming the right to renewal is taken up.

Example

Cherrypoppin Ltd paid $50,000 to acquire the New Zealand franchise rights to manufacture and distribute Rolloseal towel rails. The franchise agreement is for a 10-year period.

The majority of the $50,000 franchise fee went to capital expenditure, however, $20,000 of the fee related to the right to use a patent. The franchise was acquired on 1 April 2006 to extend until 1 April 2016.

The right to use the patent is a fixed-life intangible asset. When the franchise was purchased, it appeared the right to use the patent would remain valuable to the end of its legal life. The legal life of this fixed-life intangible asset is 10 years.

The SL depreciation rate to be used by Cherrypoppin Ltd for the right to use a patent is:

1/10 = 10% on cost of $20,000. The annual depreciation is $2,000.

Additional costs

Any additional costs, incurred in relation to an intangible asset with a fixed life during the legal life of that asset, are added to the book value. This is done at the beginning of the income year in which the costs are incurred.

The aggregate costs are depreciated over the remaining legal life of that intangible asset (calculated from the beginning of the year in which they are incurred).

A legal life includes any renewal or extension period where the renewal or extension is essentially unconditional or conditional only on the payment of predetermined fees.

So, the depreciation rate for the fixed-life intangible asset changes. In effect, the fixed-life intangible asset is treated as newly acquired from the beginning of that year for the sum of the adjusted tax value and additional costs.

Example

Karion Ltd acquires the right to use a copyright for five years for $10,000 and has an option to renew for a further five years on payment of an additional $5,000.

The legal life is therefore:

1/10 = 10% on cost of $10,000. The annual depreciation is $1,000.

In the first five years, Karion Ltd claims annual deductions totalling $5,000. In year six, Karion Ltd pays the additional $5,000.

The sum of the adjusted tax value and additional cost is $10,000 ($5,000 + $5,000). The remaining legal life of the right is five years, so the depreciation rate for years six to ten is:

1/5 = 20% on cost of $10,000. The annual depreciation in years six to ten is $2,000.

It is necessary to calculate a loss or gain on disposal of a depreciable intangible asset - see page 26.

Patents

Patent rights acquired after 1 April 1993 are also depreciable intangible assets.

Timing of depreciation

- For patent applications lodged before 1 April 2005 and granted in the 2005-06 income year or later, depreciation begins from the date the application is granted. However, there's a catch-up deduction for the period between when the application is lodged and when it's granted.
- For patent applications lodged on or after 1 April 2005, depreciation begins from the date the patent application is lodged with a complete specification.

Depreciation rates for patents

Patents have a legal life of 20 years, which is 240 months. To work out the depreciation rate divide the number of months in that year by 240.

For patents with applications lodged before 1 April 2005 and granted in the 2005-06 tax year or later, divide the number of months the patent was pending by 240 to give the catch-up depreciation rate.

Further details on the tax implications of selling patents are covered on page 27.

Example 1 - Patent application lodged before 1 April 2005

Kariov filed for a patent on a new type of footwear on 4 April 2004. The patent is granted on 2 June 2007. The total patent costs were $10,000. The depreciation for the patent would be calculated as follows:

Depreciation catch-up

(April 04-May 07)
38 months/240 months = 16% on cost of $10,000 = $1,600 depreciation*

Annual rate for the year

(June 07-March 08)
10 months/240 months = 4% on cost of $10,000 = $400 depreciation*

2008-09 income year onwards

12 months/240 months = 5% on cost of $10,000 = $500 depreciation (as the SL method must be used).

Kariov will be able to claim $500 each year until the patent expires.

* The total depreciation for the 2007-08 income year would be $2,000 ($1,600+$400)

Example 2 - Application lodged after 1 April 2005

KIZ Ltd files for a patent on a new type of cat-door. It lodged its application with complete specification on 15 September 2005. The patent is granted on 21 February 2008. The depreciation rate for the patent application and for the patent (once granted) would be calculated as follows:

Depreciation rate for patent application

2005-06 income year
(Sept 05 to Mar 06) 7 months/240 months = 0.03

2006-07 income year
12 months/240 months = 0.05

2007-08 income year
(April 07-Jan 08) 10 months/240 months = 0.04*

Depreciation rate for patent

2007-08 income year
(Feb 08-Mar 08) 2 months/240 months = 0.01*

2008-09 income year onwards
12 months/240 months = 0.05

* The total depreciation rate for the 2007-08 income year would be 0.05 (0.04+0.01)

For more information on depreciation on patents see our **Tax Information Bulletin (TIB), Vol 17, No 7 (September 2005)**. Go to **ird.govt.nz/tib**

Fishing quotas

There are two types of fishing quota:

- individual term quotas (ITQs), which are issued in perpetuity
- transferable term quotas (TTQs), which are issued for fixed periods.

Most fishing quotas give the owner the right to catch a defined percentage of the total allowable commercial catch, so do not fall within any of the classes of intangible assets listed in schedule 14. Also, the majority of quotas issued to date have been ITQs, which have an indefinite life, and are not depreciable anyway.

Please note that a TTQ is depreciable property - specifically, it is fixed-life intangible property.

For more information about fishing quotas, please refer to our **Tax Information Bulletin (TIB), Vol 12, No 3 (March 2000)**. Go to **ird.govt.nz/tib**

Distribution network assets

Distribution networks convey electricity, gas, water, and telecommunications. The individual assets within that network are depreciated at the rate applicable to that individual asset (individual assets are known as 'items of depreciable property' for depreciation purposes). This is known as the component approach. No depreciation rate exists for the composite group of assets that make up the network. Treating the entire distribution network as an item of depreciable property is known as the 'network approach'.

It is common for distribution networks to pool 'like' assets and depreciate them using the 'pool method' (see page 9). These asset pools are not 'networks' but do contain large numbers of generally low value assets with similar characteristics. It is important to recognise that while, for convenience, asset pools are depreciated using the lowest rate for items in the pool, the item of depreciable property does not lose its identity as an individual asset simply because it is depreciated as part of an asset pool. For this reason, repairs and maintenance are considered in relation to each asset in the pool, not the asset pool itself.

The component approach applies from the 2008/2009 income year. If a network approach has been used, then the component approach must now be used from the 2024/25 income year.

Computer software

This section explains our policy on the tax treatment of computer software expenditure.

Some of the terms used in our software policy are explained below.

Development

The following activities are likely to be part of a development phase:

- gathering and analysing user requirements
- designing systems
- developing detailed software specifications
- constructing programs
- testing software
- testing the user or customer (acceptance testing)
- developing manuals and training material
- preparing documents for use in ongoing software product maintenance
- providing management review throughout the development phase (for example, quality assurance).

Maintenance

The following activities will generally be accepted as deductible maintenance payments:

- developing helpdesk facilities
- fixing program bugs
- bringing performance up to the original specifications
- making minor changes, such as increasing field sizes.

Predevelopment

This term refers to a feasibility study of a project as part of ongoing business.

Software

Software includes all programs or routines used to cause a computer to perform a desired task or set of tasks, and the documentation and training materials required to describe and maintain these programs.

Upgrade

Generally, an upgrade of computer software:

- adds new features to the structure
- increases its capacity or performance
- extends the life of the software
- provides a new version of the software that has more capacity or increased performance.

Categories of software expenditure

For tax purposes, software expenditure is divided into six categories, each treated differently.

Software purchases

- Cost of purchase should be capitalised and depreciated.
- Immediate write-off is available for software costing less than $1000.
- Maintenance costs may be deducted.
- Cost of upgrades must be capitalised and depreciated.

Specified lease of software

- Cost price of software must be capitalised and depreciated.
- Interest component of lease payments may be deducted.
- Maintenance costs may be deducted.
- Cost of upgrades must be capitalised and depreciated.

Software developed in-house for use in business

- Predevelopment expenses may be deducted.
- Development expenses must be capitalised until the project is completed and depreciated.
- Costs of unsuccessful development may be deducted.
- Maintenance costs may be deducted.
- Costs of upgrades must be capitalised and depreciated.

Commissioned software

- Development costs must be capitalised until the project is accepted. It must then be depreciated.
- Costs of unsuccessful development may be deducted.
- Maintenance costs may be deducted.
- Costs of upgrades must be capitalised and depreciated.

Software leased other than under a specified lease

- Lease payments are deductible over the term of the lease.

Software developed for sale or licence

- Development costs are deductible in the year they are incurred.
- The value of unbilled work in progress and unsold completed software must be taken into account as trading stock. The value of trading stock at balance date must be included as income in your return for that income year.

- Where a payment covers both maintenance and upgrading, the cost must be apportioned between the two. The cost of maintenance is deductible and the cost of upgrading must be capitalised, taking account of depreciation.

Reservation of title clause (also known as Romalpa clause)

Depreciation can be deducted from depreciable assets purchased subject to a reservation of title clause (ie, where the contract provides that the vendor reserves title to the asset until the purchase price has been paid but allows the purchaser to take possession of the asset before payment).

Note

Reservation of title clause does not apply to hire purchase assets subject to hire purchase agreements - see Hire purchase and Leasehold improvements on page 15.

Where you purchase an asset subject to a reservation of title clause you're considered to own (and the vendor is considered not to own) the asset on the later date of entering the contract or taking possession of the asset.

This considered ownership remains until:

- title to the asset passes to you
- the vendor repossesses the asset.

If the asset is repossessed you're considered to have disposed of the asset at cost, less the net amount already paid to the vendor.

Example

Purchase price of an asset	$10,000
Amount purchaser paid towards the asset	$5,000
Asset repossessed - vendor refunds	$3,000

This means the net payment for the asset has been $2,000.

The purchaser is considered to have sold the asset for $8,000, so the depreciation recovered is calculated on the considered sale price of $8,000.

The vendor of the asset will not be able to depreciate the asset while you, the purchaser, are deemed to own it.

Low value assets (including loose tools)

Low value assets, are deductible in the year they're acquired or created, provided:

- they are not purchased from the same supplier at the same time as other assets to which the same depreciation rate applies
- the assets will not become part of an asset that is depreciable, for example, the cost of materials to build a wall in a factory.

Assets are considered low value where their cost was as follows:

Up till 16 March 2020	Up to $500
17 March 2020 to 16 March 2021	Up to $5,000
From 17 March 2021	Up to $1,000

If you're GST-registered, the cost is GST-exclusive and if you're not GST-registered, then the cost is GST-inclusive.

If you sell an asset you've claimed this deduction for, or you start using it mainly for private purposes, you'll have to account for it in your next tax return. If the asset is sold, the entire sale proceeds are taxable in the year the asset is sold. If the asset becomes a private asset, the market value of the asset when it's first used privately will be taxable income.

Part 2

Part 3 - Adjustments and disposals

This part deals with adjustments you might make and how the various ways of disposing of depreciable assets will be treated for tax purposes.

This includes calculating depreciation in the following situations:

- newly acquired assets
- private use of business assets
- transferring depreciable assets between associated persons
- private assets becoming business assets
- disposals
- transferring assets under a relationship agreement
- transferring depreciable assets between 100% group companies
- local authority trading enterprises
- determinations.

Newly acquired assets

If you're using either the SL or DV methods you can claim depreciation for each calendar month or part-month you own an asset and it's used or available to be used in deriving your gross income or in carrying on a business that aims to generate your gross income.

Example

Craig buys a new cash register on 27 January 2010 for $7,000, which he uses 100% in his business. Craig's balance date is 31 March and he uses a DV rate of 48% (including 20% loading). This is how he calculates his 2010 depreciation deduction:

Three months' use (January, February, March 2010)
12 months' income year (1 April 2009 to 31 March 2010)

The depreciation deduction is:

Even though he owned the cash register for only a few days in January, Craig can claim depreciation for the entire month.

If you have pooled assets you may add a newly acquired asset to a pool - see page 9.

Private use of business assets

Use the most appropriate unit of measurement when calculating how much a business asset, other than a motor vehicle, is used privately, such as square metres for area or hours and minutes for time.

When a business motor vehicle is used privately and the use is subject to FBT (fringe benefit tax), you do not need to adjust the depreciation deduction to exclude the private use. This is because FBT itself is a way of accounting for the non-business use.

However, self-employed people (including partners in a partnership) who use a business vehicle for private purposes, must apportion the vehicle's depreciation between business and non-business use.

If you keep an accurate vehicle logbook as an ongoing record, you can make a precise apportionment for depreciation. Alternatively, you may keep a record for a minimum of three months to establish an apportionment that may then be used for three years, provided the business use of the vehicle does not change by more than 20%.

Example

Mike is a self-employed salesperson. He bought a car for $30,000 at the beginning of the income year and 85% of its use is for business purposes. Mike's car has a DV rate of 36% (including 20% loading) and depreciation on the car is calculated as:

Step 1

Opening adjusted tax value	$30,000
Depreciation	$10,800
Closing adjusted value	$19,200

Step 2

Total depreciation		$10,800
Less	15% private use (non-deductible)	$1,620
Equals	85% business use (deductible)	$9,180

The adjusted tax value is calculated taking into account 100% of the annual depreciation, not just the deductible proportion - see the table below.

Year	Opening adjusted tax value	Depreciation	Closing adjusted tax value	Deductible portion
1	30,000	10,800	19,200	9,180 (85%)
2	19,200	6,912	12,288	5,875 (85%)
3	12,288	4,424	7,864	3,760 (85%)

When a business asset that's been used privately is sold, resulting in either depreciation recovered or a loss, the loss or gain must be apportioned between business and private use.

Calculate the apportionment using this formula:

$a - b \times c$

a = adjusted tax value at time of sale

b = sale price

c = percentage of business use

Example

If Mike, from the previous example, sells his car after three years for $6,000, the loss on the sale must be apportioned between business and private use. Business purposes made up 85% of the car's use.

The deductible portion of the loss on the sale is calculated as:

Adjusted tax value (at time of sale)	$7,864
Sale price	-$6,000
	$1,864
85% business use of $1,864	$1,584

Mike can claim $1,584 as loss on the sale.

Transferring depreciable assets between associated persons

Under normal rules a purchaser is entitled to claim depreciation based on the purchase price of an asset. The new owner of a secondhand asset can claim depreciation based on the amount paid for the asset, as long as it's an arm's length sale where:

- the sale is bona fide
- the purchase price is a fair market value for the asset
- the purchaser buys the asset for use in income-producing activities and the seller no longer uses it for income-producing activities.

The fact the parties are related does not prevent depreciation being claimed. In the case of transfers of assets between associated persons (apart from assets transferred under a relationship agreement - see page 29) a restriction applies to the amount and rate of depreciation that may be claimed by the person acquiring the asset.

Depreciation on an asset is restricted to the base value of the asset purchased from an associate, being the lower of:

- the price the seller originally paid for the asset (or, if applicable, the market value of the asset at the time the associated seller was first entitled to depreciate the asset)
- the price paid by the buyer.

This applies unless we give written approval to use the price paid by the buyer. To grant approval, we must consider such treatment is appropriate in the circumstances.

Restrictions on the depreciation rate

The depreciation rate that may be applied to an asset acquired from an associate cannot be higher than the depreciation rate applied to the asset by that associated seller. If a different depreciation method is used, the restriction applies so the depreciation rate used must not exceed a rate equivalent to that used by the associate.

This restriction does not apply if:

- the value being used for the transfer is gross income to the associated seller, other than under the provisions for depreciation recovered
- the asset is intangible with a fixed life. The depreciation rate for such intangible assets is calculated using a formula that spreads the cost of the fixed-life intangible asset evenly across its remaining life.

The restrictions on the base value of an asset, and the depreciation rate that may be used with the asset, apply whether the asset is transferred directly or indirectly to an associate.

Private assets becoming business assets

If a private asset becomes a business asset, depreciation is first calculated on the market value of that asset when it was first used in the business (except in the case of buildings, which must always be depreciated on cost - see page 12). Whether or not the market value is GST-inclusive depends on whether you are registered for GST.

However, if we ask, you must be able to provide documentation (for example, a valuation) showing how you arrived at the market value.

Note

Buildings with an estimated useful life of 50 years or more have a depreciation rate of 0% from the 2011-12 income year.

Note

For the 2021 to 2024 income years, depreciation on non-residential buildings was reintroduced. It returned to 0% from the 2024-25 income year.

For more information see page 2 of this guide.

Disposals

Selling and disposing of assets

When you sell or dispose of an asset (other than a pooled asset) for a different amount from its adjusted tax value, you must make an adjustment in your end-of-year tax return to account for the loss or gain. If the asset has been used for both business and non-business purposes, you must apportion any loss or gain on disposal between business and non-business use. You cannot claim a deduction for depreciation in the year you dispose of an asset, except in the case of buildings.

Costs incurred in selling an asset, such as commission and advertising, can be deducted from the sale price before you work out the loss or gain on sale.

The adjustment is generally made in the year you sell or dispose of an asset, except when the disposal is because business has ceased. See page 28 for depreciation adjustments when a business ceases.

When a group of assets is sold for a lump sum it may sometimes be necessary to apportion the sale price between the various assets. If, for example, a group of assets that were sold included business and private assets or assets that do not depreciate, such as land, an apportionment would have to be made.

We may sometimes ask for an independent valuation of assets if we decide the apportionment agreed to by the buyer and the seller is not acceptable.

What constitutes a disposal

The term 'disposal' includes:

- an asset that is compulsorily acquired
- an asset taken out of New Zealand (other than only temporarily)
- changes in use or location of use of a business asset
- ceasing intangible asset rights
- an asset that is irreparably damaged - see page 28
- any distribution of assets, including distributions of assets to the beneficial owners for no cost
- ceasing deemed ownership of a fixture or improvement - see page 15
- an asset that is lost or stolen if that asset is not recovered in the income year when the loss or theft occurs - see page 28
- an asset contributed to a partnership by a person.

A disposal or sale of a depreciable asset triggers either a gain or loss on disposal.

A gain on disposal or sale

Where there's no election for an asset not to be a depreciable asset and the sale price received for the asset exceeds the adjusted tax value, the lesser of the following amounts must be included as gross income in that income year:

- the total depreciation that could have been deducted since the asset was purchased or first used in the business (this amount relates to the allowable depreciation deduction rather than the amount of depreciation actually deducted), or
- the amount by which the sale price received exceeds the adjusted tax value.

Note

For any asset owned prior to the 1994 income year, only the actual amount of depreciation claimed prior to the 1994 income year needs to be taken into account. You still need to work out the amount of depreciation that could have been claimed from the 1994 income year until date of sale.

A loss on disposal or sale

When you sell or dispose of an asset for less than its adjusted tax value, the difference between this consideration and the adjusted tax value is allowed as a deduction.

If an asset is sold for less than its market value we can fix the sale price as the market value of the asset. This may happen if you sold an asset to someone close to you or your business, for example, a relative or a shareholder of the company.

In this situation, the actual sale price may be ignored and the calculations made as if the asset was sold for its market value.

The exception to this is when you dispose of pooled assets. For the treatment of pooled assets - see 'Disposing of pooled assets' on page 27.

Note

A deduction for loss on disposal does not apply to buildings, unless due to an event the building has been damaged or affected by its surroundings rendering it useless for the purposes of deriving income. See pages 12 and 37.

Disposing of intangible assets

You must calculate a loss or gain when disposing of a depreciable intangible asset. This will include calculating loss or gain from disposing of any franchise rights that are depreciable - see page 18.

A disposal of an intangible asset must fall within one of the following two circumstances:

- any event which means that the owner can no longer apply, at any time, the rights that form or are part of an intangible asset, or
- any event that causes the asset to be irreparably damaged.

A disposal of an intangible asset does not include disposing of that asset as part of an arrangement to replace it with an asset of the same type.

Part 3

Where a depreciable intangible asset is considered worthless it's unlikely ceasing to use that intangible asset could be seen as a disposal. A disposal of such an asset must fall within one of the following circumstances:

- any event which means the owner can no longer apply, at any time, the rights that form or are part of an intangible asset
- any event that causes the asset to be irreparably damaged
- any event which means the rights that form or are part of an intangible asset are moved overseas.

Although worthless, you still have the legal right to use the intangible assets, and they have probably not been irreparably damaged - it's just the value of those assets that has diminished.

The write-off provisions could apply to intangible assets. We need to be satisfied:

- the intangible asset will no longer be used, and is not intended to be used
- the costs (for example, legal) of disposal would exceed the consideration received (the intangible asset is worthless)
- no one else could use it (or would want to use it) perhaps due to unmarketability through the liability of defects.

We explain write-offs on page 35.

Patents

Where a patent is sold, the proceeds from the sale are taxable on the net amount after cost. Generally, a corresponding adjustment has been allowed for the total costs of the patent rights (at least those acquired on or after 1 April 1993). As a depreciation allowance has been available for patents since 1 April 1993, there is the potential for a double deduction. So, in calculating the profit or loss on sale of a patent, the cost of the patent is reduced by depreciation deductions that have been allowed. This restricts any deduction for loss on sale to the adjusted tax value.

If a patent application is sold while the patent is pending, so that the patent is granted to a person other than the person who filed the application, the legal life for the new owner is reduced by the number of months between when the patent application was lodged and when it was sold to the new owner.

Making arrangements between associated persons - intangible assets

An intangible asset that wasn't depreciable to the seller remains non-depreciable to the associate, even though assets of the same type have become depreciable since the seller acquired that asset.

The provision prevents an intangible asset being transferred to an associate to bring it within the depreciation rules and applies to intangible assets transferred on or after 1 July 1997.

Disposing of pooled assets

When you dispose of pooled assets, the sale price must be deducted from the adjusted tax value of the pool before calculating depreciation for the year.

If the asset is discarded or lost, the adjusted tax value of the pool is not reduced.

Where the sale price is greater than the adjusted tax value of the pool, the difference is treated as depreciation recovered and is taxable income.

The adjusted tax value of the pool will then be nil and no further depreciation deductions will be allowed until new assets are added to the pool.

Once assets are pooled, they're no longer treated as individual assets, so any capital gain made on the sale of any or all assets from the pool cannot be separated from depreciation recovered. The entire proceeds of any sale of pooled assets must be accounted for and any gains are taxable income.

When all the assets in a pool are sold and the sale proceeds are less than the pool's adjusted tax value, the balance is deductible.

Special rule for sale of assets previously held under the globo accounting method

Please note from 12 December 1995 a limitation was placed on the amount of taxable income derived from selling assets in a pool that consists only of assets previously depreciated under the globo accounting method (this method could only be used before 1 April 1993). If this applies to you please see our **Tax Information Bulletin (TIB), Vol 7, No 9 (February 1996)** for a fuller explanation of how gains are to be treated. Go to **ird.govt.nz/tib**

Ceasing business or now using the asset for non-business purposes

If you cease business and do not sell your business assets immediately or if they're kept for private use, the loss or gain must be accounted for using the market value of the assets as at the beginning of the next income year.

You'll have to make an adjustment in your income tax return for the year after the business ceased or the asset changed use, even if the loss or gain is not realised until a later income year.

Using a pooled asset privately

When an asset is no longer used solely for business purposes after it's been pooled, it must be isolated from the pool.

Example

Andy has an asset pool with an adjusted tax value of $18,000 at 1 April 2009. The pool includes an asset that Andy is now using for private purposes. He uses it privately for 20% of the time which started on 5 December 2009. The market value of the asset on 5 December 2009 was $1,500. The pool depreciation rate is 22%.

Step 1

Pool adjusted tax value (beginning of 2010 income year)	$ 18,000
Value at end of 2010 income year ($18,000 *less* deemed sale at $1,500)	+ $ 16,500
	$ 34,500
Average pool value (divide $34,500 by 2)	$ 17,250
Depreciation on the pool at 22% for the year will be:	$ 3,795

Step 2

Calculate depreciation on ex-pool assets (market value $1,500)

$1,500 x 22% x 4/12* months (*December 2009 to March 2010)	= $ 110
Total depreciation	$ 110
less 20% personal use	$ 22
Deductible depreciation	$ 88

Deductible depreciation for the 2010 income year is $3,883 ($88 plus $3,795).

At the time the asset is first used privately, it will be treated for depreciation purposes as though the business bought and sold it for the market value.

Damaged assets

You must take into account any insurance proceeds, indemnity damages or compensation payments you receive when an asset is damaged. If such payments exceed the cost of repairing the damaged asset, the surplus is not a capital receipt but must be deducted from the adjusted tax value of the asset for depreciation purposes. If the result is a negative amount, that amount is considered to be gross income in that year.

Irreparably damaged assets are considered to be disposed of for a consideration of the amount of any insurance proceeds, indemnity payment or other consideration received in relation to that event or damage.

A full deduction is allowed for disposal costs, including demolition costs.

Lost or stolen assets

The loss or theft of a depreciable asset constitutes a disposal if the asset is not recovered in the income year in which the loss or theft occurs.

Any insurance proceeds, indemnity payment or other consideration received in relation to the loss or theft of the depreciable asset is taken to be consideration received, minus disposal costs (where applicable), for the disposal of that asset. This consideration for the disposal will then be used in calculating the gain or loss on disposal of the asset.

If the lost or stolen asset is recovered in a subsequent income year, and is still owned and used or available for use in deriving income, the following assumptions apply.

- You're considered to derive gross income equal to any loss on sale deduction allowed in the previous year. The gross income will be considered to be derived either in the year of disposal or of recovery.
- You're considered to have acquired the recovered asset on the date it was retrieved at the adjusted tax value that applied at the beginning of the year of loss or theft.

Note

If you're registered for GST, do not include the GST component of these payments in your calculation - account for it in your GST return.

Transferring assets under a relationship agreement

Depreciable assets transferred under a relationship agreement are transferred at the adjusted tax value and the person acquiring the assets, provided they use them for business purposes, is allowed the deductions that would have been allowed had the transfer not taken place.

Example

Colin and Jennifer Day separate and they agree to enter into a relationship agreement. Colin will transfer half the business assets to Jennifer.

The general rule is that depreciable assets are transferred:

- at adjusted tax value at the beginning of the year of transfer
- at cost price for assets acquired in the year of transfer.

As a result, no depreciation gain or loss arises to the transferor (Colin).

The transferee (Jennifer) can continue to depreciate the remaining adjusted tax value of the assets. However, if she sells, Jennifer is considered to have claimed the depreciation deductions claimed by Colin and will be required to account for any excess of sale proceeds above the transfer value (up to the cost of the asset to Colin) as depreciation recovered.

In relation to buildings, Jennifer's depreciation claim is based on the cost of the building to Colin. He is considered to have disposed of the building at adjusted tax value.

Transferring depreciable assets between 100% group companies

Companies that are 100% commonly owned and choose to enter the consolidated system can transfer assets within their group at the assets' adjusted tax value.

When wholly owned companies amalgamate, they're treated as one company and all assets, liabilities, property, rights, powers and privileges of the amalgamating companies are held in the new amalgamated company. This means there is no depreciation recovered when assets are transferred on a qualifying amalgamation.

Wholly owned companies that do not form a consolidated group are required to transfer assets at market value and recover or claim a loss of depreciation, as applicable.

The vendor company is required to calculate depreciation recovered or a loss on disposal:

- on actual sale price, or
- on market value, when the asset has been disposed of for a consideration that is not market value, but we consider the market value is greater than the sale price and consider it to be the more appropriate value for the asset.

The purchasing company should value the asset at the cost incurred, or the value we consider the seller to have disposed of that asset, to calculate the depreciation claimed.

Council-controlled organisations

Council-controlled organisations are established by local government legislation to operate as trading enterprises liable for tax and so are competitively neutral.

When a council-controlled organisation is set up, assets transferred to it from a local authority should be transferred for tax purposes at either their:

- adjusted tax value
- true market value.

Regardless of which value is adopted:

- a local authority must make an actual sale of assets to a council-controlled organisation
- full consideration for the sale must pass between the parties
- there must be complete and detailed documentation providing evidence of the transaction (including listing individual asset values).

Our **Tax Information Bulletin (TIB), Vol 3, No 2 (August 1991)** has a full policy statement on how to value assets that are transferred from local authorities to council-controlled organisations (previously known as LATEs).

To read the Tax Information Bulletin go to **ird.govt.nz/tib**

Determinations

Inland Revenue must follow a formal procedure to set new depreciation rates or create new categories for assets and industries. This is known as 'issuing a determination' and the general rates listed in our IR265 and the IR267 guides are the result of determinations issued by us.

The determination process is also used for setting depreciation rates following applications from taxpayers. You can apply for a determination of depreciation rate if, for example, you find there is no general depreciation rate for your asset. You can also apply to us for a new rate if you believe the relevant existing general depreciation rate shouldn't apply to your asset.

There are three different types of determinations that you can apply for, depending on your circumstances:

- a special depreciation rate
- a provisional depreciation rate
- a higher maximum pooling value.

How rates are calculated

The formula below is used for calculating a DV depreciation rate for an asset.

$$1 - \left(\left(\frac{\text{residual value}}{\text{cost}}\right)^{\frac{1}{n}}\right)$$

n = the estimated useful life of the asset.

Estimated useful life

The estimated useful life of an asset is the period over which the asset might reasonably be expected to be useful in earning income in New Zealand. This period of time is calculated taking into account factors such as likely wear and tear, the passage of time, exhaustion and obsolescence. Normal and reasonable maintenance over the expected life of the asset is also taken into account. The fact an asset may have been previously used for a purpose other than deriving income (for example, private use) or carrying on a business overseas will not reduce its estimated useful life.

The estimate of useful life must take into account the length of time the asset is used by all business owners in New Zealand (ie, first owner plus second owner and so on).

Example

Grant, an owner-driver, buys a new truck every five years and sells his old one. He expects the New Zealand business that buys each truck from him will use it for another five years and then scrap it. If this is the typical useful lifespan of trucks, the estimated useful life is 10 years.

We use valuation consultants' advice when determining the estimated useful life for each asset class. The estimated useful life is determined after averaging the usage of various businesses.

The estimated useful life is listed with the depreciation rates in our IR265 guide.

You can view our depreciation rates finder or the IR265 at **ird.govt.nz/rate-finder**

Residual value

The residual value of an asset is the greater of:

- 13.5% of the original cost
- an estimate of the asset's market value (GST-exclusive) at the end of its estimated useful life. This must be a reasonable estimate made at the time of purchase.

In estimating the residual value it must be assumed normal and reasonable maintenance is carried out on the asset during its use.

Once the rates are calculated they're rounded up or down to the nearest rate.

The full range of general DV and SL rates are shown below:

1994 to 2005 rates

For assets you acquired on or after 1 April 1993, and before the end of the 1995 income year, you can use the general rates listed in table 1 or the historic rates listed in part 1 of the IR267 guide plus 25% interim loading and any shift allowances.

For assets acquired from the 1996 income year to the end of the 2005 income year (or before 19 May 2005 for buildings), use the general rates listed in table 1. For new assets, including those never used or held for use in New Zealand, and imported secondhand goods (but excluding buildings or used imported cars) depreciation is calculated using the general rate plus 20% loading.

The general rates listed in table 1 can also be found in parts 2 and 3 of the IR267 guide at **ird.govt.nz**

Table 1

General DV rate	with 20% loading	General SL rate	with 20% loading
2	2.4	1.5	1.8
4	4.8	3	3.6
6	7.2	4	4.8
7.5	9	5.5	6.6
9.5	11.4	6.5	7.8
12	14.4	8	9.6
15	18	10	12
18	21.6	12.5	15
22	26.4	15.5	18.6
26	31.2	18	21.6
33	39.6	24	28.8
40	48	30	36
50	60	40	48
63.5	76.2	63.5	76.2
100	100	100	100

2006 and future years

For assets acquired from the 2006 income year (or buildings acquired on or after 19 May 2005) use the general rates listed in table 2.

For new assets (including those never used or held for use in New Zealand) and imported secondhand goods, but excluding buildings or used imported cars, depreciation is calculated using the general DV or SL rates plus 20% loading.

The general rates listed in table 2 can be found in parts 1 and 2 of our IR265 guide at **ird.govt.nz**

Table 2

General DV rate	with 20% loading	General SL rate	with 20% loading
2	2.4	1.5	1.8
4	4.8	3	3.6
6	7.2	4	4.8
8	9.6	6	7.2
10	12	7	8.4
13	15.6	8.5	10.2
16	19.2	10.5	12.6
20	24	13.5	16.2
25	30	17.5	21
30	36	21	25.2
40	48	30	36
50	60	40	48
67	80.4	67	80.4
100	100	100	100

Note

The 20% loading has been removed from 21 May 2010, so for any assets acquired on or after this date, use only the general DV or SL rates in table 2.

Note

From the 2011-12 income year, depreciation on buildings reduced to 0% for buildings with an estimated useful life of 50 years or more.

This applies to both commercial and residential properties including leasehold property. For more information see page 12.

Note

For the 2021 to 2024 income years, depreciation on non-residential buildings was reintroduced. It returned to 0% from the 2024-25 income year.

For more information see page 2 of this guide.

Disputable decisions

Sometimes you may not agree with some of our decisions, for example:

- a determination setting a special rate
- a decision not to set a special rate
- revoking a special rate
- a determination setting a provisional rate
- a decision not to set a provisional rate.

If you want to challenge any of these decisions, see our factsheet **If you disagree with an assessment - IR778**.

Special depreciation rates

We've calculated the general depreciation rates by using the formula given on page 30. We've considered the way assets are normally used, to arrive at the values used in the formula.

For example, where it's usual to operate a piece of machinery in 2 or 3 shifts a day, the general depreciation rate we've set will reflect this heavier usage.

If you believe the general depreciation rate we've set is not appropriate for your asset because, for example, you use your machine in an unusually heavy or light manner, or it will be operated in corrosive conditions, you may apply for a special depreciation rate. As we set a special rate because of individual circumstances, it can only be set for a specific taxpayer's asset or class of assets. Once set, it can only be used by the taxpayer who made the application.

Note

You can only apply for a special depreciation rate on non-residential buildings for the 2020-21 to 2023-24 income years. From the 2024-25 income year the depreciation rate for non-residential buildings is 0%.

Your application for a special depreciation rate must be supported by evidence of how your unique circumstances will affect the life of your asset. If we agree you should have a special depreciation rate, the formula set out on page 30 will be used to calculate the rate. To qualify for a special rate, the rate you've calculated must be halfway or more to the next rate on the general rates table, either higher or lower.

Example

A personal computer purchased after 1 April 2005 has a general DV rate of 50%. The next higher general rate is 67%. The calculation must result in a rate of 58.5% or higher to qualify for a higher rate, or 45% or lower to qualify for a lower rate to be set since the next lower general rate is 40%.

When considering a special rate, we'll take into account any factors relevant in determining estimated useful life.

You can download and complete an **Application for a special depreciation rate - IR260B** from **ird.govt.nz/ir260b**

Send your completed application to:

Technical Lead
Legal Services - Technical Standards
Inland Revenue
PO Box 2198
Wellington 6140

How we set a special rate

If we agree a special depreciation rate should be set, we follow three steps. They are:

- preparing a draft determination
- holding a conference
- issuing the determination.

The process, from the time the application is received to the time the determination is issued, must be completed within 6 months, unless you agree to an extension of time.

Draft determination

Once we've considered your application, and agree a special depreciation rate should be set, we'll send you a draft determination along with a letter setting out the special depreciation rate we recommend. If this rate is different from the rate you requested, we'll also set out the reasons why we chose this rate.

Conference

At this point you may request a conference to discuss the determination. There is a time limit for requesting a conference, which will be at least 10 working days from the date we send the draft determination to you. Full details of the time limit will appear with the draft.

If it's decided not to hold a conference, we'll finalise the determination.

If it's decided to hold a conference, we'll set a date, time and place.

We'll give you at least 20 working days' notice of the conference date.

Issuing the determination

The final step in the process is to issue the determination. Hopefully, due to the consultation following the draft determination or if a conference is held, both parties will have agreed on the rate to be set.

If, however, you do not agree with the rate in the determination, you may dispute that decision. For more information, see our guide **Disputing an assessment - IR776**.

Declining an application

We'll turn down your application for a special rate if:

- your rate is too close to the general rate - see page 31
- the general rate is under review
- you haven't supplied enough information.

If we turn down your application or set a rate you do not agree with, you're entitled to dispute this decision - see page 31.

Fees

- **Application fee**
  If you're applying for a special rate there's a fee of $150 plus GST, payable with your application.
- **Processing fee**
  There is a processing fee of $75 plus GST for each hour (or part-hour) after the first two hours for work by Inland Revenue.
- **Consultant's fee**
  If we engage a consultant to advise on the estimated useful life or estimated residual value of the asset, we'll charge you the consultant's fees plus GST.

If you request a conference and a consultant paid by us attends the conference, or if you ask our consultant to carry out further work, we'll also charge you for the consultant's fee plus GST.

If you request a conference we'll advise you of the likely fees before engaging a consultant so you can decide whether you want to continue with the application.

Before we engage a consultant we'll take into account the information you've provided with your application. We will not seek a consultant's advice if you've already provided us with enough information to work out an appropriate rate.

We'll send you an account for all fees you have incurred. The costs incurred can be claimed as a deduction for income tax purposes and you can claim the GST part of the cost as a credit, if you're registered for GST.

Withdrawing applications

You can withdraw your application at any time. If you wish to do this, please let us know in writing as soon as possible because you'll have to pay fees incurred in processing your application, including any consultant's fees, up to the day we receive notice of your withdrawal.

Revoking a special rate

If we've approved your application for a special rate and your circumstances change so your asset no longer qualifies, we may either:

- revoke the determination, in which case you must use the general rate applying to the asset, or
- revoke the determination and issue a new one setting a new special rate.

If this happens we'll let you know. The special rate we have already issued will lapse the day after you've been notified.

Provisional depreciation rates

You should apply for a provisional depreciation rate if you consider the asset classes for the general rates (excluding the default asset class in each category) do not appropriately cover the assets in a category. This could happen, for example, when an asset is newly invented or imported into New Zealand for the first time and we haven't listed the asset class under the general asset category.

To apply for a provisional rate, fill in an **Application for a provisional depreciation rate - IR260A** form. There are no application fees for a provisional rate.

However, we'll charge you a fee if we:

- decline to issue a provisional rate determination or
- issue an unfavourable determination

and you ask our consultant to carry out further work that does not result in a determination favourable to you.

The fee for the further work done, or time attending a conference will include GST.

When a provisional rate is set, it will usually apply to all businesses that own and use that class of asset and we do not have sufficient information at the time to set a general rate. However, in some cases it may be appropriate for a provisional rate to be set for a specific taxpayer or class of taxpayers owning that type of asset, for example, where the asset is unique to a specific taxpayer or taxpayer group.

Provisional rates (other than taxpayer specific rates) are published in our Tax Information Bulletin and on our website at **ird.govt.nz/depreciation**

When a general rate is subsequently set for a class of asset, the provisional rate will lapse.

Calculating a provisional rate

Unless the determination provides otherwise, once a provisional rate is set, it's available to all owners of the particular class of asset. So, the basis of the calculation must relate to the typical asset within the class of assets and typical use within an industry.

It's important the information you supply with your application is representative for normal use of the asset within your industry.

We take into account the rate of depreciation you and other industry members use in your financial reporting when setting a provisional rate. We calculate a provisional or special rate using the formula explained on page 30, or the SL method.

The answer is then rounded up or down to the nearest SL or DV rate.

How a provisional rate is set

As with general and special rates, provisional rates are set by us issuing a determination. There are three main stages:

- preparing a draft determination
- holding a conference
- issuing a determination.

This three-stage process must be completed within six months from the time we receive your application, unless you agree to an extension of time. These stages are explained in more detail on page 32.

We'll turn down an application for a provisional rate if:

- a general rate for the asset already exists
- we're in the process of setting a general rate
- you haven't supplied enough information.

If we turn down your application or set a rate you do not agree with, you're entitled to dispute the determination - see page 32.

When we've set a provisional rate (other than a taxpayer specific rate) we'll notify the making of the determination and publish the determination in our Tax Information Bulletin and on our website at **ird.govt.nz**

Higher maximum pooling values

The aim of the pooling method of depreciation is to reduce compliance costs by calculating depreciation on low-value assets collectively, rather than individually.

The maximum pooling value is $5,000. This means you can only pool assets that individually have an adjusted tax value of $5,000 or less. However, you may wish to apply for a higher maximum pooling value.

You can do this by completing an **Application for a higher maximum pooling value - IR719** form.

Factors we take into account

When deciding whether to set a higher maximum pooling value we consider the following three factors.

- Whether the assets you wish to include under a higher maximum pooling value are relatively similar in nature.
- Whether you'll make savings in compliance costs, such as clerical, computing and overhead costs, by having a higher maximum pooling value. You should show these in your application.
- How often you buy and sell the assets for which you want a higher maximum pooling value.

How a higher maximum is set

There are three stages to issuing a determination to set a higher maximum pooling value. These are:

- preparing a draft determination
- holding a conference
- issuing a determination.

These stages are explained on page 32.

Fees

If you're applying for a higher maximum pooling value there is an application fee of $150 plus GST.

We charge a processing fee of $75, plus GST, for each hour (or part-hour) after the first two hours for work by Inland Revenue.

If we hire a consultant to advise on the estimated useful life or estimated residual value of an asset, we'll charge you for the consultant's fees plus GST.

We'll also charge you for the consultant's fee plus GST if you request a conference and a consultant paid by us attends, or if you ask our consultant to carry out further work that does not result in a determination favourable to you.

We'll send you an account for all fees you've incurred. The account will show the fee, the GST and the total unless we state otherwise. The costs incurred can be claimed as a deduction for income tax purposes and if you're registered for GST you can claim the GST part of the cost as a credit.

You can withdraw your application at any time - see page 33.

Deductions for assets you no longer use

This section relates to assets that are no longer used but haven't been physically disposed of.

For example, if a business discards machinery because it's outdated and unsafe, but does not sell, assign or transfer it, the machinery hasn't been disposed of.

If the cost of disposing of an asset you no longer use would be greater than the proceeds from its sale, you may claim the adjusted tax value as a deduction.

If the scrap value of the machinery in the above example is greater than the costs of disposing of that machinery, a write-off will not apply. In such cases the machinery would need to be disposed of to claim a deduction. Dumping off site constitutes a disposal.

These rules do not apply to buildings and pooled assets. See page 26 for more help on how to account for losses and gains on sale or disposal of assets.

Conditions for a deduction

To write off the adjusted tax value of an asset, you must meet the following conditions.

- You no longer use the asset in business or in producing income.
- Neither you nor an associate intend to use the asset in the future to derive gross income or in future business.
- It's uneconomic to dispose of the asset.

Part 4 - Services you may need

Need to speak with us?

Have your IRD number ready and call us on one of these numbers.

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 227 771

Find out more at **ird.govt.nz/contact-us**

Supporting businesses in our community

Our Community Compliance officers offer free tax education and advice to businesses and small organisations, as well as seminars for personal tax and entitlements.

Our Kaitakawaenga Māori offer a free advisory service to help meet the needs of Māori individuals, organisations and businesses.

Go to a seminar or workshop, or request a visit from us to find out more about:

- records you need to keep
- taxes you need to know about
- using our online services
- completing your tax returns (eg GST, employer returns)
- filing returns and making payments
- your KiwiSaver obligations.

Go to **ird.govt.nz/contact-us** and select **Request a business advisory visit** to find out about requesting a visit.

Find a seminar or workshop near you at **ird.govt.nz/contact-us/seminars**

0800 self-service number

Our 0800 self-service number, 0800 257 777 is open 7 days a week. Make sure you have your IRD number ready when you call.

For access to your account-specific information, you'll need to be enrolled with voice ID or have a PIN.

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. Subscribe at **taxtechnical.ird.govt.nz/subscribe** and we'll send you an email when we publish each issue.

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors, unless we have a lawful reason not to. Find our full privacy policy at **ird.govt.nz/privacy**

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process.

Find out more about making a complaint, and the disputes process, at **ird.govt.nz/disputes**

Glossary

Adjusted tax value is the remaining value of your asset once the depreciation you calculate each year has been deducted from the value.

Asset is the unit to be depreciated. For depreciation purposes it must not be subdivided into its separate components.

Associated persons definition in the Income Tax Act 2007 (sub-part YB) sets out rules that define when two persons are associated. These rules are categorised as tests of association as follows:

- two companies
- a company and a person other than a company
- two relatives
- a person and a trustee for a relative
- a trustee and a beneficiary
- trustees with a common settlor
- a trustee and a settlor
- a settlor and a beneficiary
- a trustee and a person with the power of appointment or removal of the trustee
- a partnership and a partner
- two persons who are each associated with the same third person (tripartite test).

Base value means:

- the cost of an asset acquired after the beginning of the 1994 income year, or
- the adjusted tax value at the end of the 1993 income year if it's acquired before this date, or
- the market value at the time the asset is taken from private to business use, if this is after the beginning of the 1994 income year.

This market value rule does not apply to buildings or schedule depreciable assets - see page 39.

Depreciable intangible assets are intangible assets acquired or created on or after 1 April 1993 and listed in schedule 14 of the Income Tax Act 2007 and have a finite useful life.

Depreciable assets are assets that might reasonably be expected, in normal circumstances, to decline in value while used or available for use:

- in deriving gross income, or
- in carrying on a business for the purpose of deriving gross income.

The term depreciable assets refers to all depreciable assets regardless of their acquisition date, and it includes assets acquired in the 1993 and earlier income years.

Disposal occurs where a depreciable asset is sold or disposed of for a consideration.

Event is a natural disaster such as an earthquake or flood resulting in the building being demolished or abandoned and later demolished. The damage to either the building or to the neighbourhood of the building has rendered the building useless for the purposes of deriving income, and is not due to the action or failure to act of the person, their agent, or an associate. You can find out more in our **Tax Information Bulletin (TIB), Vol 23, No 8 (October 2011),** page 66, 'Losses on buildings'.

Excluded depreciable assets are any assets purchased before 1 April 1993 and any of the following circumstances apply.

- The assets were used or available for use by the taxpayer in New Zealand, other than as trading stock, before 1 April 1993.
- Before 16 December 1991, the taxpayer entered into a binding contract to purchase the assets or have them constructed.
- They are or have been qualifying assets for a person or are or have been a qualifying improvement for the person.
- They are intangible assets used or available for use by the taxpayer before 1 April 1993.

Excluded depreciable assets do not include assets in existence at the end of the 1993 income year that were accounted for using the standard value, replacement value or annual revaluation method.

Fixed-life depreciable assets are any intangible assets that:

- are depreciable intangible assets, and
- have a legal life which could reasonably be expected, on the date of creation or acquisition of those assets, to be the same length as the assets' remaining estimated useful life.

Income year for depreciation purposes, includes any corresponding non-standard accounting year.

Intangible assets are assets with a finite life that can be estimated with a reasonable degree of certainty on the date of their creation or acquisition.

Legal life is defined for any intangible asset and means the number of years and any monthly fraction the asset may remain or continue to remain in existence by virtue of the contract or statute that creates the asset for the owner. It assumes the owner will exercise any rights of renewal or extension that are essentially unconditional, or conditional on the payment of predetermined fees.

Poolable assets are assets with a similar base value you can group for depreciation purposes, with a maximum value of $5,000 per asset.

Schedule depreciable assets are petroleum drilling rigs, support vessels for offshore petroleum drilling rigs and support vessels for offshore petroleum production platforms. Because of the special nature of these assets, the depreciation calculation is made on a daily rather than a monthly basis. In addition, the base value for schedule depreciable assets acquired by a taxpayer from an associated person is the lower of the cost of the asset to the taxpayer or the aggregate of:

- the cost of the asset to:
  - the associated person who didn't acquire the asset from either the taxpayer or another associated person, or
  - the taxpayer or an associated person who owned the asset at the beginning of an unbroken chain of ownership, and
- all expenditure (excluding any expenditure allowed as depreciation allowances) incurred for the asset by the taxpayer and any associated persons before the date the taxpayer acquired the asset.

The cost is determined as exclusive of any expenditure allowed as depreciation allowances.

No adjustment is made on disposition or exit from the tax base for a schedule depreciable asset.

Te Kāwanatanga o Aotearoa
New Zealand Government