



#### Head Office

Phone: 0508 482 583

Fax: 06 877 5571

Email: [info@valuit.co.nz](mailto:info@valuit.co.nz)

Web: [www.valuit.co.nz](http://www.valuit.co.nz)

## Valuit

Specialists in property depreciation

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## Welcome...

to the Valu in Review for July 2010. This month the focus is the changes to depreciation and what it means to property investors. We also have a summary of the recent review of the [Official Cash Rate](#) and the [sales stats](#) from the Real Estate Institute of New Zealand.

As always please read, learn, enjoy ....  
.... and happy investing.

## Depreciation – now every reason to claim and no reason not to!

Over recent years a couple of things have held many investors back from claiming their full depreciation entitlement, and accountants from recommending it.

1. Uncertainty over what IRD would allow to be separated from the building such as electrical wiring and plumbing AND
2. The thought of having to repay a majority of the depreciation through depreciation recovery when selling.

BUT these two hurdles have been removed leaving very little downside to claiming your full depreciation entitlement.

### Recent Changes summarised

#### **Budget - May 2010**

As was widely forecast the Government **removed the ability for property investors to claim building depreciation** in the Budget, commencing April 1 2011, **whilst still allowing the depreciation on Chattels and Fit-out**. The big benefit is that it removes the risk of being hit with a big depreciation recovery bill

### **Organise a Chattel Valuation on line**

Valuit is able to undertake your chattel valuation. We have nationwide coverage and we are the specialists in this area.

To organise a chattel valuation you can [book on line](#) or call us during standard business hours.

From within New Zealand:  
Free call 0508-482-583

From outside of New Zealand:  
+64-6-872-7110

### **Land and Building Valuations**

We are now able to offer Land and Building valuations through a sister company Property InDepth Ltd.

The company is taking valuation to the next level they not only provide registered valuations of residential property, but they also supply you with much more!

Visit the website at:  
[propertyindepth.co.nz](http://propertyindepth.co.nz)  
or call 0800  
indepth/0800 463378

to find out just how

when you sell the property. In the past this has seen many investors claim little or no depreciation, but no longer. The chattels and fit-out can in most cases be proven to reduce in value and therefore recovery on these items will be removed or significantly reduced.

### **Interpretation Statement – April 2010**

IRD released its Final Interpretation Statement on the "Tax treatment of Residential Rental property for Depreciation purposes", **finally clearing the confusion surrounding what IRD considers to be part of the building for depreciation purposes. While items such as plumbing, partitioning and electrical reticulation are considered part of the building, investors will be able to claim many "fit-out" items that are allowable, such as fences, air conditioning units and some decks along with the standard chattel items.** With this confusion now clarified (10 years on!!!!!!), we are full steam ahead in regards to the separation of items considered to be chattels as well as items of fit-out.

### **What you need to do**

#### **For properties you currently own**

**For those investors that haven't had a breakdown of their assets into the various IRD categories on their latest purchases,** you need to think about this, because come April 1<sup>st</sup> 2011 you will have no depreciation. So now is the time to have a depreciation apportionment completed on those properties purchased in the past few years.

**People selling properties** that have had chattel valuations completed in the past need to consider an exit report to help minimize depreciation recovery. The timeframe for this can be tight as we will need access to the property.

**For those of you that have had a depreciation apportionment completed** you need to ensure that items IRD considers to be part of the building, in line with the interpretation statement, are now being claimed at the building depreciation rate of 3% (Diminishing Value) and in April 2011 these will need to be adjusted to 0%, as well as the building structure. To determine if items are considered to be part of the building we now have a three step process to follow but in most cases this will include partitions, electrical wiring, plumbing, plumbing fixtures, kitchen

great these reports are.

cabinets (fitted furniture), tiles, vinyl, garage doors, telecommunications cabling and some decks and canopies depending on the level of fixing to the building. The three steps in summary are as follows;

**Step 1:** Determine whether the item is in some way attached or connected to the building. An item will not be considered attached for these purposes, if its only means of attachment is being plugged or wired into an electrical outlet (such as a freestanding oven), or attached to a water or gas outlet. If the item is attached to the building, go to step 2.

**Step 2:** Determine whether the item is an integral part of the residential rental property such that a residential rental property would be considered incomplete or unable to function without the item. If the item is not an integral part of the residential rental property, go to step 3.

**Step 3:** Determine whether the item is built-in or attached or connected to the building in such a way that it is part of the "fabric" of the building.

#### **For future purchases**

**When buying a property in the future make sure you take full advantage of your depreciation entitlements, it's all about increasing cash-flow.** The issues around depreciation recovery are now negligible and we have clarity from IRD around what can be separated from the buildings. Without an apportionment you will get NO depreciation from 1 April 2011.

#### **Make the Most of every Opportunity!!**

If selling an existing property have an exit report completed – this will **minimize** your depreciation recovery

Complete a Chattels valuation on those recent property purchases if you haven't already – this will **maximise** your allowable depreciation claim.

**For all future purchases ensure you get a depreciation apportionment completed**, without it you will get no depreciation.

**Remember those previous hurdles have now been removed.**

## Interest Rates

The Reserve Bank at its 6 weekly review on 29 July 2010 increased the Official Cash Rate by 0.25% to 3.0%.

Comments from Dr Bollard of the Reserve Bank with the announcement included:

- "In New Zealand, domestic demand is subdued. Households are cautious, with retail spending growing only modestly, housing turnover in decline and household credit growth weak. While this caution has been evident for some time, the recent slowing in net immigration will act to further dampen consumer spending. Business investment remains very low, with corporate lending continuing to be subdued"
- "The pace and extent of further OCR increases is likely to be more moderate than was projected in the June statement"
- "The coming increase in the rate of GST and other government-related price changes are likely to temporarily push annual CPI inflation above 3 percent. The Bank does not expect this price spike to have a lasting impact on inflation".

There are three reviews of the OCR before the end of 2010. There is expected to be at least one more increase in the OCR before the end of 2010. The OCR is expected to be 5 - 6% by the beginning of 2012 by a number of economists.

## House Prices

The June 2010 figures from the Real Estate Institute of New Zealand for residential sales:

|                      | June 2008 | June 2009 | May 2010  | June 2010 |
|----------------------|-----------|-----------|-----------|-----------|
| Median Sale Price    | \$340,000 | \$340,000 | \$350,000 | \$352,500 |
| Total Dwelling Sales | 4,305     | 6,040     | 5,206     | 4,575     |
| Median Days to Sell  | 53        | 41        | 43        | 45        |

The REINZ's House Price Index, as at the end of June was up 0.6% to 3230.6 (3210.0 in May). The highest the index has been is 3400 (November 2007).

(The base for the Index is 1,000 and is based on house prices in January 1992. The index was designed by the Reserve Bank and uses stratification. This is where an average for sale prices is taken across common groups of housing at a suburb level and provides a more accurate measure of house price movements).

We have tried to include a variety of articles and viewpoints on property recently contained in the media. Please note that the articles are a summary of the main points and we endeavor to reflect these as accurately as possible. The contents do not constitute professional advice and should not be relied upon as such. We strongly recommend that you seek professional advice at all times. The information is in no way a reflection of views held by Valuit Asset Appraisals Ltd or its staff.