NEWSLETTER

KPMG New Zealand

KPMG Agri bite

At KPMG our purpose is to fuel the prosperity of New Zealand, to achieve this we want to help our clients succeed by keeping them well informed.

DEPRECIATION ON ASSETS

We often field calls from clients asking about depreciation so ***if you have an accounting phobia*** ☺**,** look away now!

Depreciation allows a deduction for capital expenditure, it acknowledges that the asset will eventually wear out and you will have to buy a new one.

This means the cost of the asset will be 'written off' over its 'useful' lifetime. It is important to note that if you are 'constructing' an asset such as a shed, depreciation will only apply from the date that the shed is complete and ready for use. There is an exception land and buildings cannot be depreciated like they used to be, this is because the value doesn't generally reduce. (Farm sheds, barns etc. can still be depreciated)

Depreciation rates are determined by the Inland Revenue department based on the estimated useful life of the asset, which can differ significantly in reality. For example Tractors can hold their values a lot longer than the rate implies which generally means that when it comes time to trade it in the "book value" in the accounts can be much lower than what you get for a trade in allowance. This can then create depreciation recovery which is taxable income.

For example

Tractor Purchased	***$80,000***
Less accumulated depreciation	***$35,000***
Book Value	***$45,000***
Trade in allowance	***$50,000 (Resulting in $5,000 taxable income)***

If the tractor was miraculously sold for $85k then $5k would be a tax free capital gain and there would be 100% depreciation recovery i.e. $35k. Depreciation recovered is limited to the amount of depreciation claimed so at worst would be tax neutral.

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What is an 'asset'? Technically anything that is over $500 (excl GST) that will have an enduring benefit.

Remember, depreciation allows you to take a bite size tax deduction over time and if you sell the asset for more than what the depreciated (book) value is then the difference will be income. Always get as much for something as you can when you sell, worst case scenario you will still be better off irrespective of the tax consequences.

So if you want to sell a significant asset, give us a call do to discuss the potential tax impact.

Have a great weekend

The KPMG Farm Enterprise Team