

## Should you buy assets under \$5,000 now to take advantage of Asset threshold change?

In the past, if you purchased an asset the cost over \$500, then you would have to capitalize this asset, and claim depreciation based on the rate set by IRD to reflect the assets useful lifetime. Whereas if it cost \$500 or less (for residential property investors this includes GST and also includes any installation), then you could claim this low value asset as a repair and fully claim the cost as an expense in the year spent.

- New threshold = From 17/3/20 to 16/3/21 \$5,000 or less
- Long term threshold = From 17/3/21 \$1,000 or less

This creates an obvious opportunity until 16/3/21, that you could buy assets worth \$5,000 or less, and get a full tax deduction on the cost in this year.

So should you do that?

### 1) Cash buffer

At the moment it is uncertain times, so it is really important to have a cash buffer. Tenants might not be able to pay, or may pay late. You could lose your job or other income. Property prices could fall.

So before spending money on assets consider, do you have enough cash buffer, and in most circumstances I would wait to September or October to see how things play out over the next few months.

The cash buffer could also be for opportunities, so if you have cash available you might be able to take an amazing deal that comes along.

### 2) Do you really need it?

In general most people love a tax refund and hate paying tax. Unfortunately this logic is often wrong.

When buying an asset worth say \$4,000, you are spending \$4,000 to save a maximum of \$1,320 in tax. So in Net terms, you are still spending \$2,680.

**So if you don't need the asset, it is better not to buy it!** I would look at assets that you must do, such as for Healthy homes or insulation

### 3) Are you making a loss?

With new Ring Fencing rules in from 1/4/19, if you are already making a loss and expect to make a loss for the next few years, then extra repairs will just make your loss higher and then be Ring Fenced. **So there would be no cash benefit, so no point rushing!**

### 4) Difference

- If \$1,000 or under, then if you do it on 17/3/21 or after, then will make no difference. No need to rush
- If a repair, then threshold doesn't matter. See point 5, but in general new shower, roof, vanities, toilet, kitchen cupboards, kitchen bench, painting will all be repairs.
- Assets that wear out quickly like computers have high depreciation rates. There is less benefit in having these as a repair, as they would have depreciated quickly anyway
  - o Computer as repair, say \$3,000 and reduce tax by \$1,000 in 2021 year
  - o Computer as asset, 2021 approx \$1,500 depreciation and reduce tax by \$500, 2022 approx \$1,500 depreciation and reduce tax by \$500. So end of 2022 would give very similar result for tax.
- **Assets that wear out slowly like driveways have low depreciation rates. So there is a big benefit in getting these as a repair if \$5,000 or less, as depreciation would be extremely slow and at 4% per year.**
  - o New Path \$4,000. If done 17/3/20 to 16/3/21, then repair so reduce tax by \$1,320 max
  - o New Path \$4,000 done in April 2021, then asset. Year one depreciation only \$160, and max tax saving \$53 in year one. LARGE DIFFERENCE!

### 5) New property purchased

Anything done before tenancing is NOT a repair. So if you buy a rental property, paint and then tenant, the painting is not deductible as a repair.

An example with assets, if you buy a rental property today, put in a heat pump for \$4,000, new carpet for \$3,000 and a new stove for \$1,000, and then tenant, these items are not repairs, even though they are under the \$5,000. They are a cost of buying the property.

**So if you have just purchased and not tenanted, the \$5,000 threshold makes no difference.**

I hope you have found this useful.

ROSS



Ross Barnett | Principal

Level 1 851 Victoria St, Hamilton

[ross.barnett@one50group.co.nz](mailto:ross.barnett@one50group.co.nz)

[www.propertyaccountant.co.nz](http://www.propertyaccountant.co.nz)

07 839 2801

Proud founders of One50 Dream Days

Like us on Facebook

**DON'T MISS OUR NEXT LIVE ONLINE PROPERTY INVESTMENT SEMINARS**

[CLICK HERE TO REGISTER](#)

**9 June at 7.30 pm Rental Property Basics**

**10 June at 7.30 pm Adding Value and Getting ahead**

Like us on Facebook

---

This may be a 'Tax Advice Document' subject to non-disclosure rights under the Tax Administration Act 1994. You should not disclose the contents to any party without first obtaining professional advice. Disclosure may void the non-disclosure right. This electronic mail message together with any attachments is confidential. If you are not the intended recipient please email us immediately and destroy the email. You may not copy, disclose or use the contents in any way. The contents and attachments, may contain views or opinions that are those of the sender and not necessarily the views or opinions of Coombe Smith One50 Group Property Accountants. Coombe Smith One50 Group Property Accountants accepts no responsibility for changes made to this e-mail or to any attachments after transmission from Coombe Smith One50 Group Property Accountants. Thank you.