Depreciation: How to spread the cost of your assets

Most assets lose their value over time through wear and tear or becoming out of date. Depreciation is used to recognise this decrease in value and spread the cost of assets like computers and vehicles over their useful life.

Can you claim depreciation on buildings owned by your business?

Yes  No

What is depreciation?

Depreciation is a method of spreading the cost over time of big assets you buy for your business — or your work as a sole trader or contractor. You can claim a deduction for Inland Revenue-approved depreciation rates in your income tax return. It's a bit like claiming expenses, but instead of claiming the total cost of the item, you claim the amount it depreciates each year.

Assets that deprecate

For tax purposes you must deprecate assets that:

- are owned by you or your business and are available for business use
- cost more than $500
- have an expected life of more than 12 months.

Intellectual property assets like patents and copyright are depreciable.
Assets that don’t depreciate

You can’t claim tax for depreciation of:

- assets you’ve elected to treat as not depreciable with Inland Revenue
- trading stock
- land or buildings (except for fixture or land improvements)
- most intangible assets, eg goodwill
- low-value assets (less than $500) — these are fully written off when you buy them
- assets where the costs are already deducted under another tax provision
- assets that don’t decline in economic value because of compensation for loss or damage
- assets where the costs were or are allowed as a deduction under special provisions relating to primary sector land improvements.

Watch Inland Revenue’s Introduction to Depreciation video for a quick explanation.


Calculating depreciation

Depreciation is calculated annually over the useful life of the asset as part of your end-of-year accounts.

To calculate you need to know:

- the asset’s value
- your depreciation method
- the approved Inland Revenue depreciation rate.

The asset’s value

This is generally the market value of the asset at the time you acquire it or start using it for your business. Each year, depreciation is deducted from the value of your asset — the remaining value is called the adjusted tax value.

If you’re GST registered, use the GST-exclusive price of the asset to calculate depreciation, and you can claim a credit for the GST portion of its price. If you aren’t GST registered, base your depreciation on the GST-inclusive price.
Depreciation method

Choose one of these methods:

- Diminishing value: depreciation is calculated as a constant percentage of the asset's adjusted tax value. Your depreciation deduction reduces each year.
- Straight line: your asset depreciates every year by the same amount — a percentage of its original cost price.

You don’t have to use the same method for all your assets but you must use the same method on an asset throughout the financial year.


Tax depreciation rate

Inland Revenue sets depreciation rates based on the cost and useful life of an asset.

[Depreciation rate finder (external link)](http://www.ird.govt.nz/calculators/tool-name/tools-d/calculator-depreciation-rate-finder.html) — Inland Revenue

To calculate an asset's adjusted tax value and the amount of depreciation to claim, multiply its cost by the depreciation rate.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Car bought after 19 May 2015 for $30,000 (ex GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chosen calculation method:</td>
<td>Diminishing value depreciation</td>
</tr>
<tr>
<td>Depreciation rate:</td>
<td>30%</td>
</tr>
<tr>
<td>Year 1:</td>
<td>Opening tax value $30,000</td>
</tr>
<tr>
<td></td>
<td>Depreciation claimed $30,000 x 30% = $9,000</td>
</tr>
<tr>
<td>Year 2:</td>
<td>Adjusted tax value $21,000 ($30,000 - $9,000 depreciation claimed in the previous year)</td>
</tr>
<tr>
<td></td>
<td>Depreciation claimed $21,000 x 30% = $6,300</td>
</tr>
</tbody>
</table>
Recording depreciation

You need to keep an accurate record of:

- your fixed assets — including proof of purchase and sale
- the depreciation claimed
- the adjusted tax value of each asset (cost minus depreciation).

You must keep records for at least seven years.


[Keeping tax records](/tax-and-accounting/tax-time-tips/keeping-tax-records/)

[Income and provisional tax](/tax-and-accounting/basic-tax-types/income-tax-and-provisional-tax/)

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