



BUDGET 2010

The Key Points

- **Income tax rates as of October 2010 will decrease.**

The new rates will be:

- 10.5c per dollar on income up to \$14,000 (down from 12.5c)
- 17.5c per dollar on income between \$14,001 and \$48,000 (down from 21c)
- 30c per dollar on income between \$48,001 and \$70,000 (down from 33c)
- 33c per dollar on income over \$70,000 (down from 38c)
- Company tax rate will be cut from 30% to 28% from the next financial year

- **GST will increase from 12.5% to 15% as of October 2010**

- **No longer able to claim depreciation on investment buildings**

- **LAQC loopholes addressed**

- **Leaky Homes package**

The budget will have an affect on investment property owners across the board including owners of residential, industrial and commercial properties.

From 1 April 2011 depreciation deductions will no longer be allowed for buildings “with an estimated useful life of 50 years or more”. Owners will still be able to claim depreciation on building fit-outs e.g. floor coverings and partitioning provided that this is correctly segregated.

Up until now depreciation has been used to offset profit on the income received from investment property. This has meant property owners have been paying tax on a reduced net profit through the claiming of depreciation.

One of the drivers for the government putting a stop to the depreciation claim is that it will close a loophole which has allowed people to reduce their income sufficiently to be able to claim Working for Families. The government has also addressed LAQC rules taxing profits and losses at the same rate thus reducing the need for LAQC's.

It has been suggested that by no longer being able to claim depreciation, there may be a large number of investment properties coming on to the market. Some commentators believe this is going to see house prices fall by up to 10%. They also believe we are going to see rents increase as landlords try to mitigate their losses.



How do we believe this will affect residential property in Rotorua?

The investment/rental market is supply and demand driven and while there is a good supply of rental properties available, we do not believe the change in depreciation rules is going to see a marked increase in rents. If we see a reduction in the number of rental properties available then we may see rents go up more dramatically.

Investors who own a number of properties and are highly leveraged may find themselves having to sell down part or all of their portfolios. An increased pool of investment properties for sale could see the values of these properties go down, particularly in a quiet market. The impact on price levels will almost certainly be dependent on the numbers of properties taken to the market.

It may also be an opportunity for first home buyers to enter the market providing they can get finance. We may see an increase in first time purchasers of residential investment property who are less concerned about reducing their taxable income and believe they are buying at the bottom of the market. This type of investor would be purchasing for the long term and hoping for capital gains.

Overall it is expected that we may see a change in the Rotorua residential investment market with signs of this occurring in the next few months if multiple properties come on to the market for sale. This change is going to be driven by a combination of the budget and the local market forces with supply and demand being the determining factors in the property value and rental changes.

How do we believe this will affect industrial & commercial property in Rotorua?

The announcements at last Thursday's budget are not considered to have a major impact on the industrial and commercial market in Rotorua. The GST rise is considered to have little impact as most sales and leasing transactions are negotiated exclusive of GST.

The change in depreciation rules may dampen the mindset of potential purchasers to a degree. In the short term this may cause a slight downward blip in sale prices. Building owners will still be able to claim depreciation on 'fit-out', all be it smaller depreciation sums than previously.

Economic experts suggest rental levels will increase by 10%. Both sale prices and rental levels are set by the market, supply and demand. There are other market forces currently happening in Rotorua, alongside the budget announcements. Given the number of vacant shops and offices in the CBD, we can't see any major 'across the board' rental increases in the short term.