

FACT SHEET | PUKA MEKA

Income tax – identifying the relevant item of property for depreciation purposes

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IS 25/03 FS

This fact sheet accompanies Interpretation Statement IS 25/03: *Income tax – identifying the relevant item of property for depreciation purposes*. IS 25/03 explains how to identify the relevant item of tangible property when applying the depreciation rules in the Income Tax Act 2007. This fact sheet summarises IS 25/03.

Introduction | Whakataki

1. The Income Tax Act 2007 contains rules that permit depreciation loss deductions for items of property used or available for use in deriving assessable income or in carrying on a business for the purposes of deriving assessable income. The permitted deductions are based on a proportion of the cost of the item. The proportion or depreciation rate is fixed by the Commissioner for items of that type and is based on the item's estimated useful life.
 2. Accordingly, the identity of the item of property will determine its cost and the depreciation method and rate. The identity of the item of property may also determine other matters such as whether the item:
 - is an item of low value, meaning its cost can be deducted in full in the year of acquisition;
 - can be depreciated using the pool method of depreciation; or
 - whether specific rules for certain types of property apply.
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3. In addition to correctly identifying the relevant item of tangible property, other requirements must be met under the Act before a deduction for a depreciation loss will arise. These requirements are that the:
 - taxpayer owns the item of property;
 - property is depreciable property as defined;
 - property is used, or is available for use, to derive assessable income; and
 - depreciation loss is calculated in the correct manner (ie, using the correct method and rate).

These additional requirements are not discussed in IS 25/03: Income tax – identifying the relevant item of property for depreciation purposes. For more information on how to claim depreciation, see Inland Revenue: [Te hekenga wāriu - Depreciation](#) (webpage, Inland Revenue, last updated 18 September 2024).

4. The Commissioner has also published specific guidance that considers this topic where identifying the relevant item of property is needed to determine certain income tax matters. Where it applies, the specific guidance should be consulted instead of IS 25/03. The specific guidance is listed at the end of this factsheet.

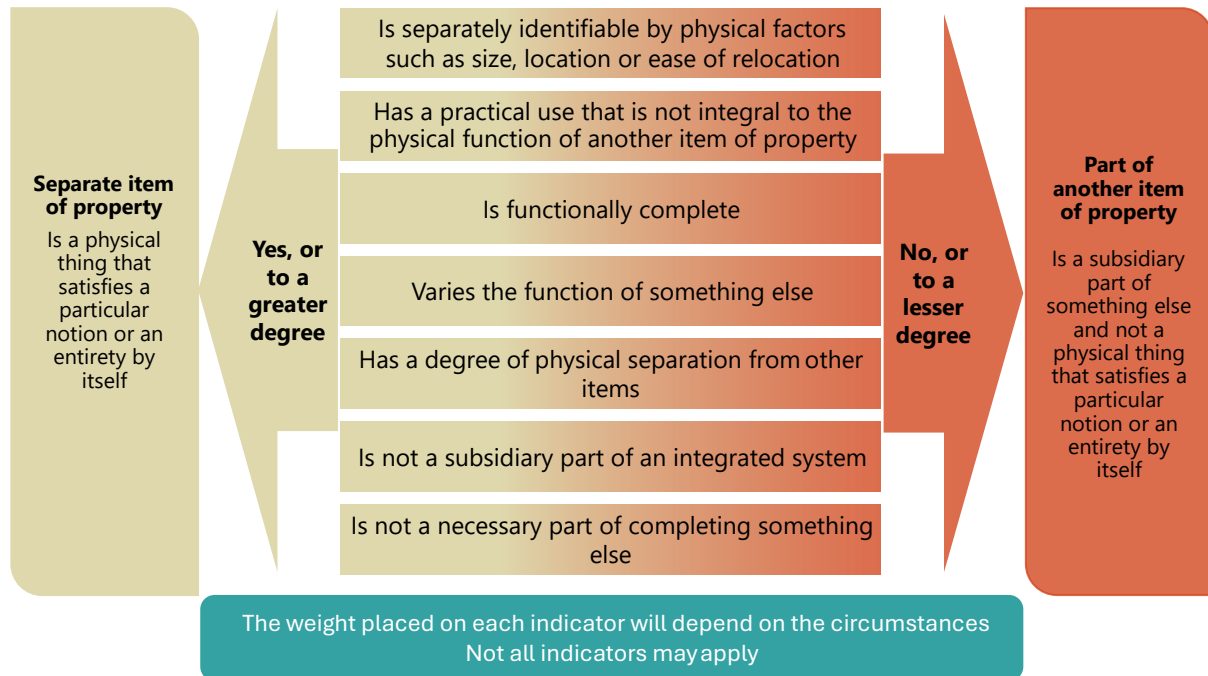
Analysis | Tātari

Key points

5. Identifying the relevant item of property is always a question of fact and involves matters of degree and impression. In many cases, this identification task will be straightforward. However, in some cases it may be unclear whether an item is a standalone item of property or part of another item of property. The listing of an item in a table of depreciation rates set by the Commissioner is not determinative of the treatment of an item of property a taxpayer owns. This is because what is the relevant item of property is based on the use of the item in a particular taxpayer's circumstances. This means the same item of property may be treated differently by different taxpayers.
6. The focus is on identifying a physical thing that satisfies a particular notion. That is, something that is an entirety by itself and not a subsidiary part of anything else.
7. The focus is not on the item's operational or economic significance, on finding a profit-earning entity or on abstract concepts separate from the item's physical components.

8. There are factors that indicate whether the item under consideration is or is not an item of property for a particular taxpayer. Indicators that the item under consideration **is** an item of property in its own right include the following:
 - *The item is physically distinct from a wider asset of which the item might be a part.* Consider whether the item can be separately identified by physical factors (eg, location or size). Determine the item's function (ie, the practical use to which it is put) and consider whether this function is integral to the physical functioning of a wider asset of which the item may be a part. Also relevant is the relative size of the item, whether it can be relocated and the degree of physical attachment between items (ie, whether they can be easily separated or whether this would result in significant damage to either item or both items).
 - *The item is (to some degree) functionally complete.* Functional completeness is about whether the item can function on its own. However, this does not necessarily mean the item needs to be self-contained or used separately.
 - *The item varies the function of another item.* Two items will tend to remain separate items where one item varies the function of another item, enabling it to perform a more specialised function.
9. Indicators the item under consideration **is not** an item of property for a particular taxpayer include the following:
 - *The item has a physical connection with other items.* Where a degree of physical connection exists between the item under consideration and other items this may indicate the item is not a separate item of property. This may indicate the item is not physically distinct from a wider item.
 - *The item is part of an integrated system.* Where the item is a component of an integrated system with its own unified function designed to function as a whole, the component item may lack its own functional distinctiveness and not be a separate item of property.
 - *The item is a necessary part to complete something else.* An item under consideration will tend not to be a separate item of property if it is a necessary part to complete some other item. This relates to the concept of "completeness" and whether the other item would be considered incomplete or unable to function without the item under consideration.
10. These indicators are often the inverse expression of another and can be reduced to the form shown in Figure | Hoahoa 1.

Figure | Hoahoa 1: Determining whether something is an item of property



11. If the answer is that something is part of another item of depreciable property, then the expenditure is added to the cost or adjusted tax value of that item. If the answer is that something is a separate item of property, then it can be depreciated in its own right.

Additional specific guidance

- IS 10/01: Residential rental properties – depreciation of items of depreciable property *Tax Information Bulletin* Vol 22, No 4 (May 2010): 16
www.taxtechnical.ird.govt.nz/interpretation-statements/is1001-residential-rental-properties-depreciation-of-items-of-depreciable-property
- IS 12/03: Income tax – deductibility of repairs and maintenance expenditure – general principles *Tax Information Bulletin* Vol 24, No 7 (August 2012): 68
www.taxtechnical.ird.govt.nz/interpretation-statements/is-1203-income-tax-deductibility-of-repairs-and-maintenance-expenditure-general-principles
- IS 22/04: Claiming depreciation on buildings *Tax Information Bulletin* Vol 34, No 8 (September 2022): 9
www.taxtechnical.ird.govt.nz/interpretation-statements/2022/is-22-04

- IS0025: Dairy farming – deductibility of certain expenditure *Tax Information Bulletin* Vol 12, No 2 (February 2000): 10
www.taxtechnical.ird.govt.nz/interpretation-statements/is0025-dairy-farming-deductibility-of-certain-expenditure
- QB 15/03: Income tax – changing to a different depreciation rate for an item of depreciable property *Tax Information Bulletin* Vol 27, No 4 (May 2015): 30
www.taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2015/qb-1503-income-tax-changing-to-a-different-depreciation-rate-for-an-item-of-depreciable-property
- QB 20/01: Can owners of existing residential rental properties claim deductions for costs incurred to meet Healthy Homes standards? *Tax Information Bulletin* Vol 32, No 7 (August 2020): 126.
www.taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2020/qb-20-01

About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views, a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further [Status of Commissioner's advice](#) (Commissioner's Statement, Inland Revenue, December 2012).