



Inner City Wellington (ICW) submission to Ministers of Finance and Revenue on the Tax Working Group's (TWG) options for building depreciation

Key points

1. ICW supports the TWG's proposals with respect to support for apartment owners whose building is undergoing seismic strengthening.
2. It remains unclear, based on the wording in the report, whether the proposed seismic strengthening depreciation option will apply to owner-occupiers in residential multi-unit buildings.
3. The current proposal to only allow building depreciation on costs up to 67% of the New Building Standard (NBS) is unworkable given that strengthening proposals are unique to each building and don't fit easily into specific %NBS.
4. ICW does not support the setting of any threshold other than 34% as currently stated in legislation.
5. ICW urges the Government to clarify the application of the proposals, to consider a one-off transfer for residential owner-occupiers who have funded strengthening of earthquake-prone buildings, and to proceed with implementation quickly.

Seismic strengthening depreciation in multi-unit residential buildings does not appear to apply to residential owner-occupiers

1. ICW is pleased to see the acknowledgement in the report that there is a clear case for some form of tax relief (be it depreciation or deductions) for seismic strengthening work. (para 25). However, we do not believe it will apply to a large number of our members who are residential owner-occupiers of apartments.
 - a. Residential owner-occupiers are where the apartment is owned by named individuals, and not a trust or a company, and it is the primary residence for those individuals.
2. ICW's primary focus has been supporting owners facing mandatory seismic strengthening after their building (and homes) are determined to be earthquake-prone and have limited choices about their investment. The TWG has not restricted the coverage of the depreciation option for seismic strengthening to mandatory strengthening of earthquake-prone buildings. This risks providing tax relief for optional investment which increases the costs to the Crown.



The depreciation option for seismic strengthening

3. ICW supports the reinstatement of depreciation for the cost of seismic strengthening work as promoted by the Property Council of NZ for commercial property owners and investor-landlord owners. In our submissions to the TWG we called for equitable treatment for residential owner-occupiers in respect of seismic strengthening costs. Further clarity is needed on the costs that are included for the depreciation calculation. ICW has not considered the question of reinstating building depreciation generally.
4. The proposal to only allow building depreciation on costs up to 67% of the New Building Standard (NBS) is unworkable. Seismic strengthening options are determined by the weaknesses of the building and how different options will perform in strengthening a building. Solutions are often stated as achieving >70%NBS (or some other number) or may move in discrete jumps
eg one option and costs associated with strengthening up to 45%, with the next (more expensive) option giving a rating of 65%. Both are over the legislated minimum seismic rating and should be eligible for tax relief.
5. Further, ICW does not agree with the setting of any threshold other than 34% NBS as stated via the Building Act and supporting regulations, as this creates an unlegislated threshold for seismic strengthening.
6. Even if the depreciation option was available to residential owner-occupiers, it creates more compliance burdens, as many owners will not currently be submitting a tax return. Commercial owners, trusts, investor-landlord owners are all submitting tax returns. Requiring a tax return imposes an additional compliance burden on residential owner-occupiers in multi-unit buildings, particularly those facing mandatory seismic strengthening, compared to standalone residential owner-occupiers.

An appropriate tax relief mechanism

7. ICW believes the appropriate mechanism for residential owner-occupiers in multi-unit residential buildings is to establish a one-off transfer in the tax year in which the strengthening work is completed. This transfer could be claimed by and paid to the Body Corporate/Company Share Committee, which would distribute as per the unit entitlement/ share allocation or use it to offset operational expenses for the owners, subject to any special resolution decision.
8. The Body Corporate/Company Share Committee acts on behalf of all owners in the project, including submitting the resource and building consents, and is a legal entity. There would be



INNER-CITY WELLINGTON

Te Reo Pokapū o Pōneke

VOICE OF TE ARO AND WELLINGTON CENTRAL

ample evidence through engineering reports, building consents and certification of compliance to provide evidence of seismic strengthening work.

9. This approach reduces the compliance burden for owners and provides a finite period for the transfer if it is targeted at owners facing mandatory seismic strengthening.
10. The rate of the transfer must establish some equity with the tax relief that GST-registered owners of earthquake-prone buildings are already receiving - taking the 15% GST paid for the work off the GST they must pay. ICW considers that 15% rebate is the minimum that should be paid as a transfer and strongly urges there should be a comparable approach with the ability to claim 33.33% as a rebate off charitable donations. After all, mandatory seismic strengthening is primarily driven by the expectation of increased public safety.
11. For residential owner-occupiers of earthquake-prone buildings we seek a retrospective application so owners who have already progressed work, driven by increased public safety expectations, are not penalised.
12. ICW urges the Government to introduce the tax relief for seismic strengthening via transfer urgently given the public safety drivers and legislated timeframes that are forcing owners to progress these large, complex and expensive projects at a time when the supply of suitable construction companies and engineering resource is already capacity. Any uncertainty risks delaying earthquake-prone building seismic strengthening projects as owners will want to be eligible for the tax relief. This could be mitigated by making the eligibility retrospective.
13. ICW also highlights that the depreciation measure proposed does not address the financial losses incurred by owners who have to sell their buildings when it is not financially viable for the building to be strengthened to comply with retrospective legislation. This situation needs to be urgently addressed by the Government.

For further information please contact:

Geraldine Murphy, Deputy Chair, Inner City Wellington.

Email: 0274 507804, geraldine.murphy@xtra.co.nz