



tourism  
INDUSTRY

ASSOCIATION NEW ZEALAND

**Submission to the  
Inland Revenue Department  
1 September 2010**

## Comment

1. This submission is made in response to a paper titled *Post-Budget depreciation issues* prepared in August 2010 by the Policy Advice Division of the Inland Revenue Department and the Treasury. The paper deals with two post-Budget depreciation related issues, namely:
  - a. The depreciation of building fit-out in non-residential buildings; and
  - b. Implementation issues for “grandparenting” depreciation loading.
2. At a general level, the tourism industry’s main concern about depreciation changes announced in Budget 2010 in May were the extra costs associated with not being able to depreciate commercial buildings with a 50 year life. In the case of tourism businesses, for example hotels and motels, it was understood the changes could limit the ability of businesses like these to reinvest in upgrades, renovations and refits which are always needed to keep stock modern and up to scratch.

### **The depreciation of building fit-out in non-residential buildings**

3. For the Tourism Industry Association (TIA) and its members, the key issue in this paper is the distinction it draws between residential and non-residential property and in particular the legislative concept of dwelling. Clause 3 (5) in Appendix B defines a dwelling as well as listing what is not included such as hotels and motels.
4. While it is understood that the paper clarifies the rules around depreciation for hotels and motels and will certainly improve their situation, the case is not so clear for mixed use properties such as bed and breakfasts. Defining a bed and breakfast establishment as a residential dwelling could prevent such properties from making depreciation deductions on fit outs they may wish to make.
5. The paper has also clarified the distinction between building expenditure and fit out expenditure. Appendix A has provided a list of asset items that represent non-residential building fit-out for depreciation purposes. This will give tourism businesses more certainty by defining what is considered non-residential building fit out. TIA is concerned that Appendix A may not include all items relevant to tourism based businesses and the Association would need to canvass its membership to understand if this list is comprehensive.
6. Regarding the transitional rule for non-residential fit-outs as proposed in the paper, the Association supports the position adopted by Business New Zealand in its submission. Business NZ has said the transitional rule to allow a one-off adjustment, whereby taxpayers currently depreciating commercial and industrial fit-outs as part of the building, would create a building fit out depreciation pool of 15% of the building’s adjusted tax book value”. As Business NZ has also noted, TIA believes IRD should give consideration to the 15% threshold being increased as well as allowing for businesses to obtain independent market valuations to establish fit-out values.

## **Implementation for “grandparenting” depreciation loading**

7. As described on page 9 of the issues paper, TIA supports the implementation issues for “grandparenting” depreciation loading. The proposal by IRD (paragraph 3.5) takes into account a range of situations and will ensure more flexibility with respect to people building an asset themselves that was not finished before 20 May 2010. It will also help people who enter into multiple contracts for a single item of depreciable property where some of those contracts became binding before 20 May 2010.

## **Conclusion**

8. The government’s changes to depreciation rules will result in significantly increased costs for tourism businesses with commercial buildings or property. This will deter or prevent some of these businesses from making often necessary investment in capital upgrades. However, the changes proposed in this paper to rules around non-residential fit-outs will go some way to lessening the impact of the depreciation changes.
9. Finally, the Association supports the submission made by the New Zealand Hotel Council and recommends that officials consult that paper for a more detailed analysis of the depreciation issues as they affect the hotel sector.

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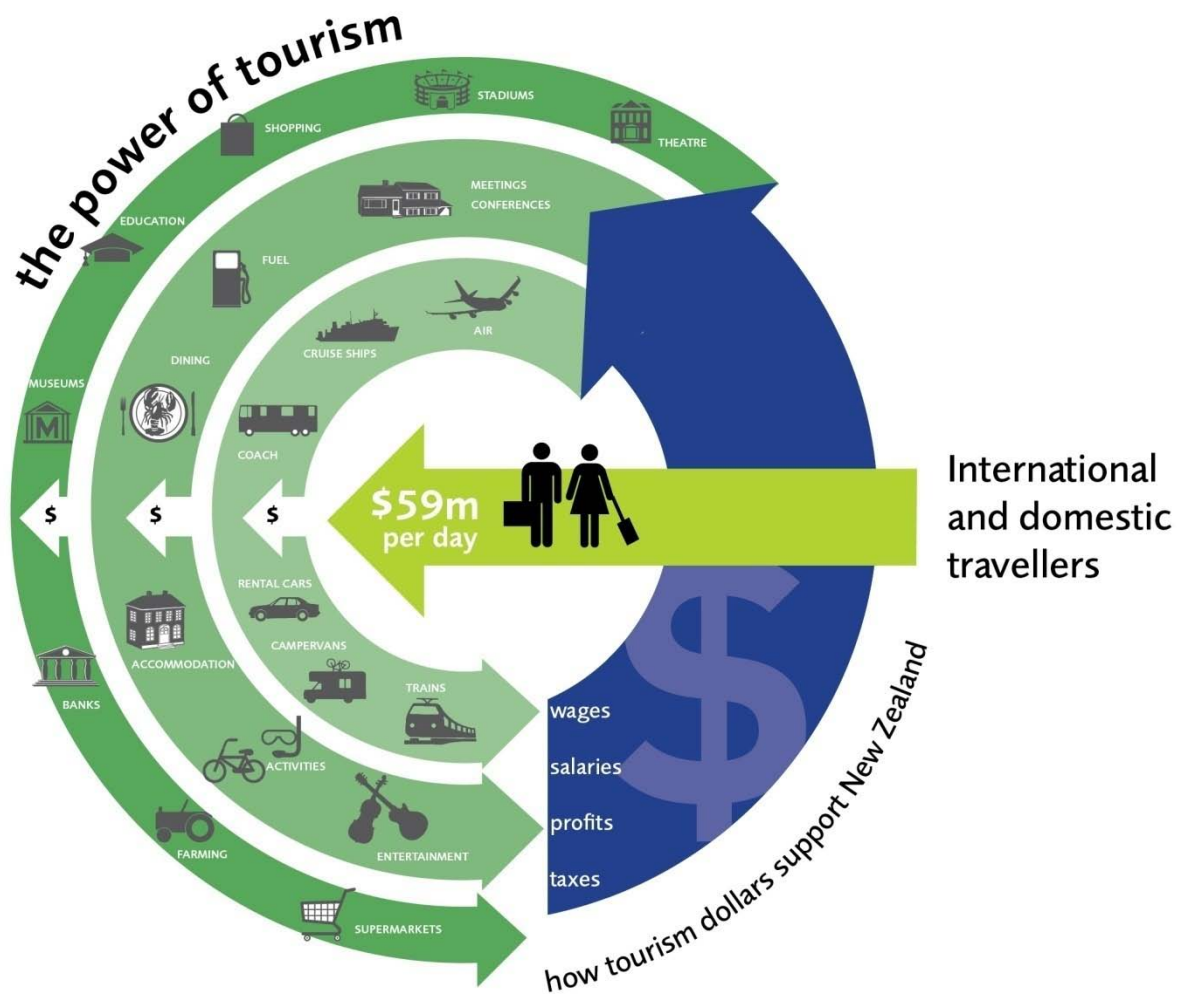
## **Background**

### **A bed-rock of New Zealand's economy**

10. Tourism is a major contributor to the New Zealand economy that will always be here – and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. Thanks to our 100% pure positioning, New Zealand is recognised as one of the most beautiful, unspoiled and scenic places on earth. 100% Pure signifies pride in our country, pride in our people and culture, and pride in the unique environment and experiences that New Zealand offers.
11. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean, green, pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.
12. If New Zealand Inc. is to continue to prosper, to attract investment and to raise its position in OECD rankings, then it is vital the tourism industry, and the positive image it projects, remain strong.

### **Delivering Value**

13. Below is a snapshot of the economic value provided by tourism to the New Zealand economy.
  - Tourism contributes more than 9.1% of gross domestic product (GDP) for New Zealand as well as directly and indirectly employing one in ten New Zealanders.
  - Tourism in New Zealand is a \$59 million per day industry. The New Zealand tourism industry delivers \$25 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another \$34 million in economic activity every day.
  - Tourism expenditure reached \$21.7 billion for the year ended March 2009. International visitor expenditure accounted for \$9.3 billion or 16.4% of New Zealand's foreign exchange earnings, with tourism second only to agriculture as the country's largest export industry.
  - Importantly, and despite more challenging times in the past two years, tourism remains one of New Zealand's largest foreign exchange earners and its contribution is felt at national, regional and local levels.



## About TIA

14. TIA has been the lead association that represents the interests of about 1,700 tourism businesses in New Zealand. The Association was first established in 1955 and the businesses TIA represent cover a range of tourism-related activities – hospitality, transport, accommodation, adventure and activities, attractions and retail as well as related tourism services.
15. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events and membership and business services. The TIA team is based in Wellington and led by Chief Executive, Tim Cossar.

# Main Industry Associations in the Tourism Sector

