

MEDIA RELEASE
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Bold Budget good for New Zealand, at Property industry's expense

Bold changes set out in Budget 2010 will primarily be funded through an effective tax increase for New Zealand property owners.

Property Council welcomed the announced drop in the company tax rate from 30% to 28% and similar reduction in the PIE rate, (effective from October 1 2010 for unlisted and April 1 2011 for listed portfolio investment entities).

Property Council advocated for a tax cut to the PIE and company tax rates and is pleased this will take effect ahead of Australia's company tax rate cut scheduled for 2014.

However, Property Council Chief Executive Connal Townsend said while those reductions in the marginal tax rates are positive for the New Zealand economy, commercial property investors will help fund these changes by paying more tax.

"The Budget 2010 contains some positive results to improve New Zealand's national economic performance, but the cost of this unfairly falls on the property sector."

The most significant negative impact will be a change to disallow depreciation for a building's structure. Of equal concern are moves which could see rules changed to disallow depreciation on items such as building airconditioning systems which are currently depreciable as part of a building's fit-out.

Preliminary views from analysts believe the collective impact of tax changes on listed property could be a reduction in distributable earnings of between 4% and 7%.

Property Council National President Chris Gudgeon said the Council was very concerned about the Government's intention to review depreciation allowances for items of fit-out which clearly have an economic life significantly less than 50 years.

"This review has the potential to be a blatant tax grab which could create a significant disincentive to re-invest in commercial buildings, at the precise time when the Government needs to be incentivising refurbishment of existing buildings to reduce carbon emissions and maximise energy efficiency.

"Property Council looks forward to actively engaging with officials as part of that review. We have to ensure that the ability to claim depreciation for building systems for non-residential property is maintained."

Property Council has engaged with Inland Revenue and Treasury officials since February and provided them with compelling evidence that commercial buildings do depreciate. Removing the ability to claim depreciation effectively increases the tax charge on business.

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NB: The NZIER and KPMG Reports are available on the Property Council New Zealand website:
propertynz.co.nz

Ross McKinley (KPMG Auckland) and Shamubeel Eaqub (NZIER) authored the respective reports.

About Property Council New Zealand

Property Council is New Zealand's property voice. Property Council represents New Zealand's Commercial, Industrial, Retail, Property Funds and Multi Unit Residential Property owners, investors and managers. Property Council has branches throughout the country and its members represent some of the largest commercial property portfolios in Auckland, Wellington, Christchurch, Hamilton and Tauranga, the value of which exceeds \$30 billion.