



**EXPOSURE DRAFT - FOR COMMENT AND DISCUSSION ONLY | HUKIHUKI HURANGA
- MŌ TE TĀKUPU ME TE MATAPAKI ANAKE**

Deadline for comment | Aukatinga mō te tākupu: **28 November 2025**

Please quote reference | Whakahuatia te tohutoro: **PUB00510**

Send feedback to | Tukuna mai ngā whakahokinga kōrero ki
public.consultation@ird.govt.nz

Notes | Pitopito kōrero: This item refers to PUB00505 **Income tax – deductibility of repairs and maintenance expenditure – general principles** released for external consultation 20 November 2025.

QUESTIONS WE'VE BEEN ASKED | PĀTAI KUA UIA MAI

Income tax – Can a deduction be claimed for asbestos removal costs?

Issued | Tukuna: Issue date style

QB 25/XX

This question we've been asked explains what deductions a taxpayer can claim for the costs of removing asbestos from buildings, land or other assets that they own.

Key provisions | Whakaratonga tāpua

Income Tax Act 2007 – ss DB 46, Subpart EE and s YA 1.

Question | Pātai

Can owners of commercial property, residential rental property or other assets used in deriving assessable income claim income tax deductions for costs they incur in removing asbestos?

Answer | Whakautu

Yes – a deduction will generally be available for asbestos removal costs. The timing of a deduction will depend on the nature and extent of the asbestos removal work and the asset to which it relates:

- Where the work is not of a scale or nature to enhance or improve an asset – the costs may be deductible “repairs and maintenance” expenditure. An income tax deduction will in such cases be available under s DA 1 in the year the taxpayer incurs the costs (provided none of the general limitations applies).
- Where the capital limitation in s DA 2(1) applies, the costs may form part of depreciable property, and the taxpayer may claim a depreciation loss deduction under the depreciation rules in subpart EE. However, no depreciation loss deduction will be available where the asset to which the asbestos removal relates is land or a building.¹
- If the capital limitation applies, but no deduction is available by way of depreciation loss on an asset, a deduction will generally be available under s DB 46. Depending on the nature of the work undertaken, the deduction may be available in the year the taxpayer incurs the cost, or by amortisation over a period of up to 35 years.

For a summary of the steps for determining what deduction is available for asbestos removal costs, see [29].

¹ Land is not depreciable property. From the 2024–25 income year onwards the depreciation rate for all buildings with an estimated life of 50 years or more is 0%. As such, no depreciation loss deduction is available in relation to buildings.

Explanation | Whakamāramatanga

Background

2. Asbestos was commonly used in building construction up until the 1980s, when health restrictions were placed on its use in construction due to health effects of asbestos fibres. Many buildings in New Zealand continue to have asbestos elements. They remain a health hazard because asbestos can be harmful as it deteriorates or when disturbed by activities like maintenance, installation and renovation.
3. It is common for owners of land, buildings and other assets to incur expenditure to remove asbestos. In some cases, they incur these costs in a standalone project. More commonly, costs arise as part of a project for refurbishment or renovation of an existing building structure or building fit-out. Sometimes land owners may incur costs in removing soil or other elements of the land where asbestos has contaminated it.
4. Costs in asbestos removal work may include testing, containment, encapsulation, removal and disposal of the asbestos in an approved manner. Costs may also include those for ancillary activities, for example the costs of scaffold hire to reach the affected areas.
5. This question we've been asked (QWBA) discusses circumstances in which these costs can be treated as deductible "repairs and maintenance" expenditure, when a deduction for depreciation loss will be available in relation to capitalised asbestos removal costs, and when a deduction will be available under s DB 46. Section DB 46 provides a deduction for certain costs of avoiding, remedying or mitigating effects of discharge of a contaminant. While this QWBA considers the application of s DB 46 in the context of property held on capital account, costs of removing asbestos from buildings which are held on revenue account may be deductible under the provision if its requirements are met (including that no deduction is available under any other provision).

Can asbestos removal costs be deductible "repairs and maintenance" expenditure?

6. In some cases, costs incurred in removing asbestos will be deductible "repairs and maintenance" expenditure. A deduction is available if the expenditure meets the

requirements of the general permission in s DA 1(1)² and the deduction is not excluded by any of the general limitations in s DA 2.³

7. This QWBA assumes the expenditure on repairs meets the requirements of the general permission in s DA 1. Its focus is on the sole issue of whether the expenditure is capital in nature. If it is, the capital limitation in s DA 2(1) does not permit a deduction for the amount of the expenditure.
8. When the capital revenue tests are applied in the context of repairs and maintenance expenditure, the courts use a two-step approach to decide if the expenditure is capital or revenue in nature:
 - Identify the relevant asset that is being repaired or worked on.
 - Consider the nature and extent of the work done to that asset.

Identifying the asset

9. The principles for identifying assets for repairs and maintenance purposes are the same as those for identifying an item of property for depreciation. This means, as a general rule, the tangible asset considered for repairs and maintenance purposes will be the same as the item of property for depreciation.⁴
10. The Commissioner has published guidance on identifying the relevant item of property in the context of the depreciation rules in **IS 25/03: Income tax – identifying the relevant item of property for depreciation purposes**.⁵
11. Factors that might suggest the item under consideration is the relevant asset are where the item:
 - is physically distinct from a wider asset of which the item might be a part;
 - is functionally complete (to some degree); or
 - varies the function of another item.

² The taxpayers incur the expenditure in deriving their assessable income or excluded income, or in carrying on a business for the purpose of deriving such income.

³ The general limitations in s DA 2 include a denial of deduction for expenditure which is of a capital nature, or a private or domestic nature. Other limitations may also apply.

⁴ In special cases, where the taxpayer does not wholly own the object of the work, the asset for repairs and maintenance will not entirely match the asset for depreciation. For more details, see **IS 25/03: Income tax – identifying the relevant item of property for depreciation purposes**. *Tax Information Bulletin* Vol 37, No 2 (March 2025): 8.

⁵ See note 2.

12. Some factors that may suggest the item under consideration **is not** the relevant asset are where the item:
- has a physical connection with other items;
 - is part of an integrated system; or
 - is a necessary part to complete something else.

Nature of the work undertaken

13. Two key questions arise when considering the nature and extent of the work done on an asset. The answers to these are a matter of fact and degree:
- Has the work led to the reconstruction, replacement or renewal of the asset, either entirely or substantially? If yes, the cost is considered capital expenditure.
 - If the work does not involve the entire or substantial reconstruction, replacement or renewal of the asset, has it gone beyond making good of what is normal wear and tear and changed the character of the asset? If yes, the cost is also considered capital in nature.
14. When deciding whether the work done is capital in nature, it is necessary to consider the nature, extent and scale of the work done to the asset. Deciding the scale of the work done includes considering the significance of the work done to the asset. Changes to an asset's value, earning capacity, useful life, function or operating capacity, whether intended or not, are relevant but cannot alone decide the nature of the work done to the asset. The cost of the work may also be relevant.
15. For further detail about what is deductible repairs and maintenance expenditure and how to apply the two tests, see IS 25/XX **Income tax – deductibility of repairs and maintenance expenditure – general principles**.⁶

Can asbestos removal costs be depreciated as costs of an asset?

16. If the expenditure is not deductible as repairs and maintenance because it is capital in nature, the expenditure can be considered to determine if it can be capitalised into the cost of depreciable property. In this context, the costs of removing asbestos and replacing it with safer materials may form part of the cost of depreciable property or an improvement to depreciable property.

⁶ **Income tax – deductibility of repairs and maintenance expenditure – general principles** is currently being consulted as PUB00505.

17. The principles for identifying assets for repairs and maintenance purposes are the same as those for identifying an item of property for depreciation. This means, as a general rule, the tangible asset considered for repairs and maintenance purposes will be the same as the item of property for depreciation.
18. For a commercial property, the asset to which the asbestos removal costs relate will commonly be the "building", "building fit-out", "land" or a separate asset (eg, "fume cabinet").⁷ The depreciation rate for buildings with a useful life of 50 years or more is currently 0%. Land is excluded from the definition of "depreciable property". For this reason, it is important to identify correctly the asset to which the asbestos removal costs relate.
19. For a residential rental property, if an item in the property is distinct from the building and it meets the definition of "depreciable property", it may be separately depreciated. If an item is part of the building (a building element), it cannot be depreciated separately and its treatment will be consistent with that of the building as a whole.⁸
20. Table | Tūtohi 1 presents some common examples of building elements which may contain asbestos in a commercial property or a residential rental property context, and the asset to which they usually relate.

Table | Tūtohi 1 – Common examples of building elements containing asbestos and the asset to which they relate

Asset	Building elements which may contain asbestos
Commercial building	▪ External cladding and roofing ▪ Textured ceilings and sprayed-on wall surfaces ▪ Insulation including around pipes, heaters, and hot water cylinders ▪ Exterior doors and mouldings ▪ Asbestos cement downpipes, gutters, vent pipes and capping ▪ Window moulding and louvre blades
Commercial fitout	▪ Internal partition walls; ▪ Ceiling and ceiling tiles; ▪ Vinyl floor tiles or sheet vinyl floor coverings
Residential building	▪ Roofing panels ▪ Electrical meter board ▪ Wet area lining substrate ▪ Exterior cladding, including baseboards ▪ Vinyl flooring ▪ Floor or wall tiles

⁷Refer to IS 25/03.

⁸ Refer to IS 10/01 – Residential rental properties – depreciation of items of depreciable property. Tax Information Bulletin Vol 22, No 4 (May 2010): 16.

	▪ Loose fill insulation ▪ Water tanks and cupboard linings ▪ Textured ceilings or ceiling tiles ▪ Fireplace surroundings ▪ Stormwater trap and sewage piping
--	--

Can a deduction be claimed for asbestos removal costs under s DB 46?

21. Section DB 46 provides a deduction for certain costs of avoiding, remedying or mitigating effects of discharge of a contaminant. Asbestos is a "contaminant" within the meaning of this provision: when discharged into air, asbestos causes the air to become carcinogenic.
22. For a deduction to be available under the provision, the taxpayer must carry on a business in New Zealand and incur the expenditure in carrying on the business (or in ending the operations of the business). A deduction is available under s DB 46 only if:
 - no deduction is available as "repairs and maintenance" expenditure;
 - no depreciation loss deduction is available on the asset to which the asbestos removal relates; and
 - no deduction is available under any other provision.
23. The costs must not be incurred in relation to revenue account property.⁹
24. The expenditure must be of a type listed in part A or B of schedule 19. Part A lists certain expenditure relating to an activity or improvement or land. Part B lists certain expenditure relating to monitoring, remedies and mitigation. The expenditure must not be of a type listed in part C of schedule 19 which specifies excluded expenditure – including expenditure relating to land reclamation, dredging or the acquisition of land). Table | Tūtohi 1 sets out further detail on the common types of expenditure for asbestos removal that parts A and B of sch 19 cover.
25. An immediate deduction is available for expenditure falling within part A, item 1 or part B of Sch 19. Expenditure falling within part A items 2 to 5 may be amortised over the lesser of 35 years or the remaining term of any relevant resource consent. Different rules apply where the work requires a resource consent.
26. A deduction will usually be available under the provision if the operations of the business for which the taxpayer incurred the expenditure come to an end in the

⁹ A limited exception is available for land that is subject to section CB 8 (Disposal: land used for landfill, if notice of election).

income year. Alternatively, it is usually available if an improvement to land described in sch 19, part A, on which the taxpayer incurred the expenditure is destroyed or is rendered useless for the purposes for which they incurred the expenditure.

27. Where asbestos removal costs are capital costs that the taxpayer incurred in relation to a building at a time when the depreciation rate was more than 0%, no deduction will be available under s DB 46. (Any available deduction in respect of the costs will only be available in accordance with the depreciation provisions in subpart EE.)
28. Table | Tūtohi 2 sets out examples of common asbestos costs within each category, and the treatment that commonly applies in each case:

Table | Tūtohi 2 – Common expenditure and tax treatment under Sch 19 parts A and B

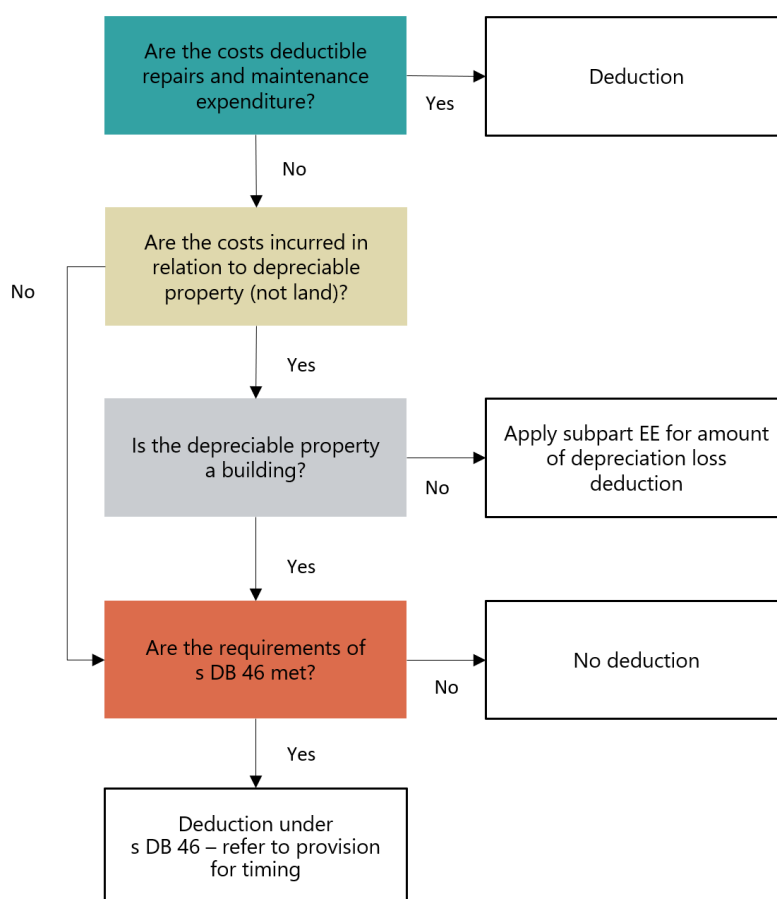
Part A: Expenditure relating to activity or improvement on land	When deduction available
Item 1 Expenditure on investigating and testing for asbestos	Deduction in the year incurred
Item 5 Expenditure on containing or removing asbestos	Amortise over 35 years
Part B: Expenditure relating to monitoring, remedies, and mitigation	When deduction available
Item 1 Expenditure related to monitoring the discharge of asbestos	Deduction in the year incurred
Item 3 Expenditure, incurred after the discharge of asbestos on remedying environmental effects such as cleaning or soil removal	Deduction in the year incurred

Summary | Whakarāpopoto

29. Figure | Hoahoa 1 summarises the approach to deductibility for asbestos expenditure. This figure assumes that:

- The taxpayers are New Zealand tax resident and incur the expenditure in deriving their assessable income or excluded income, or in carrying on a business for the purpose of deriving such income.
- The general limitations in s DA 2 (other than the capital limitation) do not apply to the costs.

Figure | Hoahoa 1 – Deductibility of asbestos removal costs



Examples | Tauira

30. The following examples illustrate the tax treatment of costs that taxpayers incur in removing asbestos from land, buildings or other assets in four different situations. Unless stated otherwise, the examples assume:

- the taxpayers are New Zealand tax residents and incur the expenditure in deriving their assessable income or excluded income, or in carrying on a business for the purpose of deriving such income; and
- the general limitations in s DA 2 (other than the capital limitation, which is discussed in each example below) do not apply to the costs.

Example | Tauira 1 – Deductible repair expenditure

Dev and Anya own a residential rental property they purchased 15 years ago. The present tenants recently noticed a leak in the bathroom. Investigations reveal that water from a leaking pipe has damaged a small part of the wall, as well as some vinyl flooring near the vanity.

Dev and Anya incur costs checking whether the flooring contains asbestos. When asbestos is discovered, they pay a specialist contractor to safely remove the flooring in the bathroom and for another contractor to install new vinyl.

The removal of flooring elements is not a replacement or renewal of the whole or substantially the whole of the asset. Nor does the work alter the character of the rental property. The capital limitation does not apply and the asbestos removal and vinyl replacement costs are deductible repairs and maintenance expenditure.

Example | Tauira 2 – Depreciable as part of capital project

Retail Up Investments Limited owns a building that it leases to retail tenants. When a tenant moved out of a retail space recently, the company engaged a construction company to conduct a full refit and redecoration of the interior to accommodate a new tenant. This included the removal of some internal partition walls.

Before starting work under the contract, the construction company engaged a specialist to conduct investigations and test for asbestos in the partition walls. The retail space was formerly a food outlet, and the specialist discovered asbestos in certain areas of the kitchen. The construction company then arranged for different specialists to remove the asbestos before the construction could go ahead. The

construction company charged the costs of the investigation, testing and removal to Retail Up under the contract.

While the asbestos removal does not itself comprise the replacement or renewal of a whole or substantial whole of the building fit-out, Retail Up incurred the asbestos removal costs as part of a capital project to replace the fit-out. As such, the cost of the asbestos removal must be capitalised to the cost of the building fit-out and depreciated at the relevant asset rate. The investigation and testing expenses, because Retail Up incurred them as part of the wider project, must also be capitalised to the cost of the building fit-out and may be depreciated at the relevant asset rate.

Example | Tauira 3 – Deductible under s DB 46

Lewis operates a farm machinery repair business from an old warehouse he purchased 30 years ago. The roof and some areas of the external wall cladding have recently begun deteriorating.

Lewis incurred expenditure in January 2025 to get the building tested for asbestos. When asbestos was discovered in the roof and cladding, Lewis engaged a specialist contractor to remove the asbestos safely, and engaged a building contractor to install new pre-painted steel products on the roof and walls.

The work changes the character of the building and increases its capital value – this is an “improvement” to the building asset. Depreciation will not be available on the improvement (as the building depreciation rate is 0%). A deduction will, however, be available under s DB 46.

As the costs of testing for asbestos were incurred separately from the capital project, they will be deductible in the year they are incurred (as they are costs specified in sch 19, part A, item 1). Costs of removal will be deductible on an amortisation basis over 35 years, as they are costs within sch 19, part A, item 5.

Note that if Lewis incurred the expenditure after 22 May 2025, an Investment Boost deduction may be available for 20% of the cost of the improvement (refer subpart DI for eligibility requirements). If an Investment Boost deduction is available, no deduction will be available for costs under s DB 46.

Example | Tauira 4 – Contamination of land

Drift and Drama Performance Limited runs dance and drama classes from a hall it owns. Company owner, Maia, recently became concerned that the building may contain asbestos. She arranged for a specialist asbestos consultant to test the building and surrounds. While the main hall did not contain any asbestos, the consultant located it in the soil where a front porch had been demolished in the past (before the dance company had purchased the hall). The consultant also detected asbestos contamination in the entrance lobby.

Expenditure on scraping and removing the soil and on giving the entrance lobby an environmental clean is within sch 19, part B, item 3. These costs will be deductible in the year when the dance company incurred them.

Draft items produced by the Tax Counsel Office represent the preliminary, though considered, views of the Commissioner of Inland Revenue.

In draft form these items may not be relied on by taxation officers, taxpayers, or practitioners. Only finalised items represent authoritative statements by Inland Revenue of its stance on the particular issues covered.

Send feedback to | Tukuna mai ngā whakahokinga kōrero ki
public.consultation@ird.govt.nz

References | Tohutoro

Legislative references | Tohutoro whakatureture

Income Tax Act 2007 – ss CB 8, DA 1, DA 2, DB 46, subpart DI, subpart EE, sch 19.

Other references | Tohutoro anō

Asbestos in Aotearoa New Zealand (webpage, WorkSafe New Zealand, accessed 12 June 2025)

worksafe.govt.nz/topic-and-industry/asbestos/asbestos-in-aotearoa-new-zealand

IS 10/01 Residential rental properties – depreciation of items of depreciable property *Tax Information Bulletin* Vol 22, No 4 (May 2010): 16.

taxtechnical.ird.govt.nz/tib/volume-22---2010/tib-vol22-no4

taxtechnical.ird.govt.nz/interpretation-statements/is1001-residential-rental-properties-depreciation-of-items-of-depreciable-property

IS 25/03 Income tax – identifying the relevant item of property for depreciation purposes *Tax Information Bulletin* Vol 37, No 2 (March 2025): 8.

taxtechnical.ird.govt.nz/tib/volume-37---2025/tib-vol37-no2

taxtechnical.ird.govt.nz/interpretation-statements/2025/is-25-03

IS XX/XX: Income tax – deductibility of repairs and maintenance expenditure – general principles *Tax Information Bulletin* Vol XX, No X (MMM YYYY): p

About this document | Mō tēnei tuhinga

Questions we've been asked (QWBAs) are issued by the Tax Counsel Office. QWBAs answer specific tax questions we have been asked that may be of general interest to taxpayers. While they set out the Commissioner's considered views, QWBAs are not binding on the Commissioner. However, taxpayers can generally rely on them in determining their tax affairs. See further [Status of Commissioner's advice](#) (Commissioner's statement, Inland Revenue, December 2012). It is important to note that a general similarity between a taxpayer's circumstances and an example in a QWBA will not necessarily lead to the same tax result. Each case must be considered on its own facts.