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INTERPRETATION STATEMENT | PUTANGA WHAKAMĀORI

Income tax – Depreciation of low-value assets

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IS XX/XX

This interpretation statement explains the income tax rules that allow a taxpayer to claim a depreciation loss deduction for the full capital cost of an item of depreciable property where the item's cost does not exceed a specified threshold. It also explains how the rules work when a taxpayer purchases items of property together, and how depreciation recovery income can arise when they dispose of such items.

Legislative references are to the Income Tax Act 2007 unless otherwise stated.

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Summary | Whakarāpopoto

1. This interpretation statement explains the circumstances in which a taxpayer may elect to deduct the full capital cost of a low-value asset under s EE 38.
2. It focuses on three main requirements for claiming this deduction:
 - the cost threshold;
 - whether the low-value asset forms part of a larger item; and
 - whether the exception for acquisitions made at the same time from the same supplier (the “group acquisition” rule) applies.
3. This interpretation statement also discusses how income may arise when a taxpayer disposes of a low-value asset or changes its use.
4. The cost threshold (\$1,000) is generally GST-exclusive for GST-registered taxpayers and GST-inclusive for taxpayers who are not registered for GST. It is also determined by reference to the asset’s cost before any Investment Boost deduction is claimed under subpart DI.
5. A deduction under s EE 38 is not available for an item that forms, or will form, part of another item of depreciable property. This is a question of fact and degree and answering it requires exercising judgement based on the overall impression in the individual case. Making that judgement involves referring to a range of factors that help to identify the relevant totality or entirety of a physical thing that satisfies a particular notion (see [IS 25/03: Income tax – identifying the relevant item of property for depreciation purposes](#)).

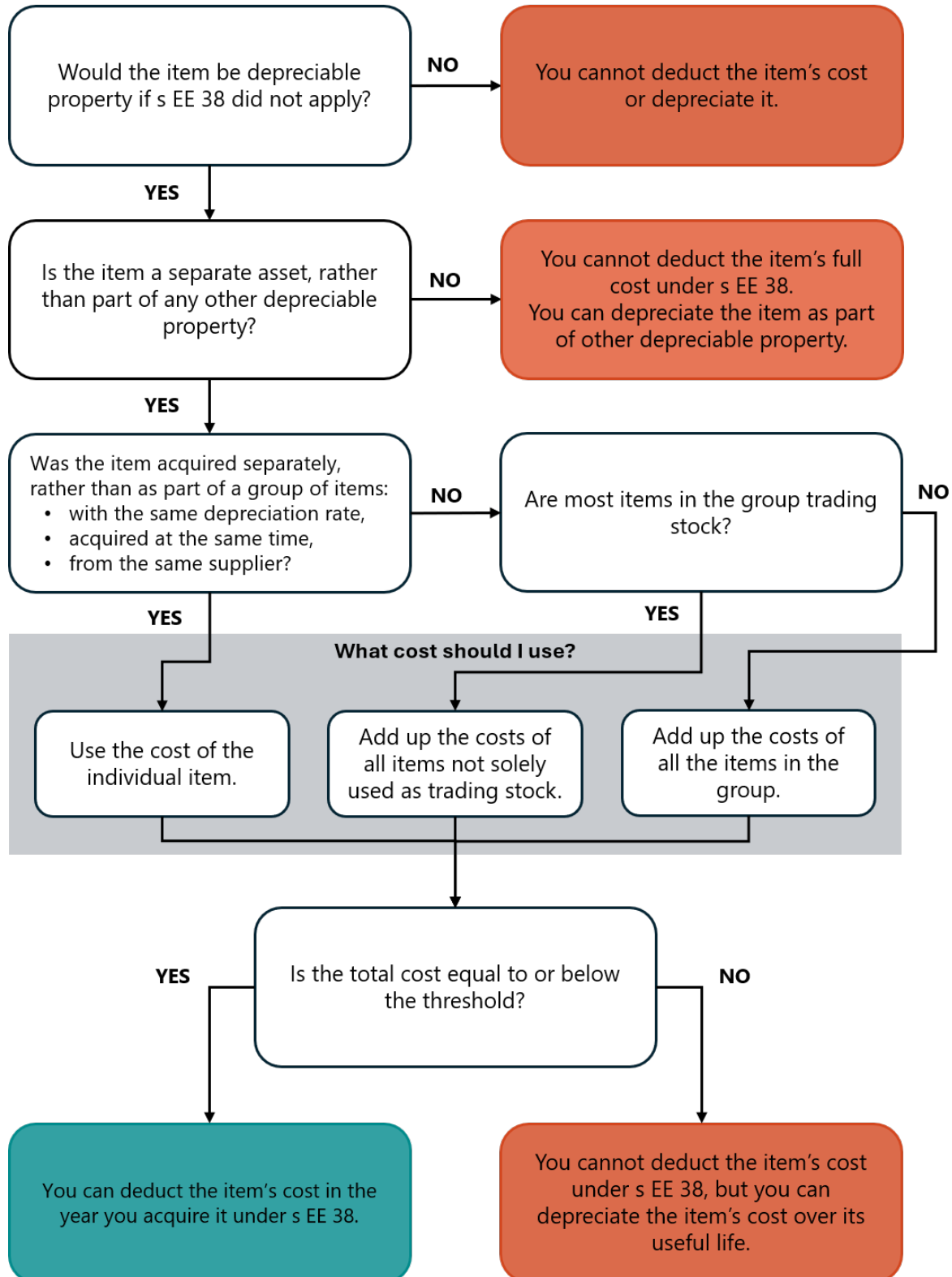
6. Where a taxpayer acquires an item as part of a group of items at the same time from the same supplier and that item would attract the same depreciation rate as the other items, a deduction under s EE 38 is available only if the total acquisition cost is below the \$1,000 threshold. In such cases, the grouping is assessed on a transactional basis by reference to when title or ownership passes under the relevant contract or applicable property law.
7. An exception to the “group acquisition” rule applies where the taxpayer acquired most items in the group as trading stock, but does not use some items exclusively for this purpose (eg, instead using them as demonstration models). In that case, the threshold may be applied to the total cost of the items that the taxpayer does not use solely as trading stock. If the total cost of these items is below the \$1,000 threshold, a deduction under s EE 38 is available.
8. Where a taxpayer elects to deduct the cost of an asset under s EE 38, any consideration they derive from disposing of the asset subsequently is income. If the taxpayer stops using the asset mainly for income-earning or business purposes, they must return income at that time based on the asset’s market value.
9. As a practical compliance measure, taxpayers should maintain records of low-value assets so that it is possible to identify disposals or changes in use and to calculate any resulting income.

Introduction | Whakataki

10. Rules in subpart EE allow taxpayers to claim deductions for depreciation losses on assets that they use, or that are available for them to use, in deriving assessable income or carrying on a business. The deductions are calculated as a proportion of the asset's cost. The Commissioner fixes the proportion or depreciation rate for assets of that type, based on the assets' estimated useful life.
11. However, s EE 38 allows taxpayers to deduct the entire cost of a low-value asset with a cost below a specified amount, rather than requiring them to depreciate the cost over the asset's useful life. To be able to claim this deduction, taxpayers must meet several statutory requirements.
12. Taxpayers may choose to apply the low-value asset rules or to depreciate a low-value asset as normal. They make this choice by claiming a deduction in their income tax return (s EE 38(3) and (4)).
13. For s EE 38 to apply, one requirement is that the item would be depreciable property if the taxpayer did not elect to apply this section. This interpretation statement assumes that the item otherwise satisfies the requirements to be depreciable property for which a depreciation loss would be available. Broadly, a depreciation loss arises where the:
 - taxpayer owns the item of property;
 - property is depreciable property as defined (see ss EE 6 and EE 7); and
 - taxpayer uses the property, or that property is available for their use, to derive assessable income.
14. The interpretation statement focuses on three main requirements for claiming this deduction that a low-value asset must also satisfy under s EE 38:
 - the cost threshold (s EE 38(1)(a));
 - whether the asset forms part of a larger item (s EE 38(1)(d)); and
 - whether the "group acquisition" rule applies (s EE 38(1)(f)).
15. This interpretation statement also discusses how income may arise when the taxpayer disposes of a low-value asset or changes its use (s EE 38(5)).
16. Figure | Hoahoa 1 illustrates how the main requirements of s EE 38 work.

Figure | Hoahoa 1 – Applying s EE 38 to an item of property

Can you deduct the cost of an item of property in the year you acquire it under s EE 38?



Analysis | Tātari

The cost threshold

17. Section EE 38 applies only if the total cost of the item equals or is below the threshold in s EE 38(2). The threshold is \$1,000. For GST-registered taxpayers, the total cost of an item is generally GST-exclusive.¹ For taxpayers who are not registered for GST, the total cost is GST-inclusive.
18. It is possible for low-value assets to qualify for deductions under the Investment Boost rules in subpart DI, which allow a 20% deduction for the cost of new investment assets. To integrate this deduction with the depreciation regime, the legislation generally requires taxpayers to reduce the cost of the asset by the amount of the deduction. However, s EE 38(1B) provides that this cost reduction does not affect whether an item's cost equals or is below the cost threshold.
19. Example | Tauira 1 illustrates how the cost threshold applies.

Example | Tauira 1 – Cost threshold

Harpurz Ltd acquires a new work phone for \$1,294 (GST-inclusive). As a GST-registered person, Harpurz Ltd claims a GST input deduction, so the GST-exclusive cost of the phone is \$1,125.

The phone is a new investment asset for the purposes of the Investment Boost rules in subpart DI. Harpurz Ltd claims a 20% Investment Boost deduction of \$225 (20% of \$1,125).

For the purposes of s EE 38, the cost threshold is determined by reference to the asset's original GST-exclusive cost (\$1,125), without reduction for the Investment Boost deduction. Because this amount exceeds the current cost threshold of \$1,000 in s EE 38(2), the phone does not qualify as a low-value asset and Harpurz Ltd cannot immediately deduct its cost.

Accordingly, Harpurz Ltd must depreciate the phone over its useful life. In calculating the depreciable cost, it applies the Investment Boost rules to reduce the cost of the asset by the amount of the Investment Boost deduction. The depreciable cost of the phone is therefore \$900.

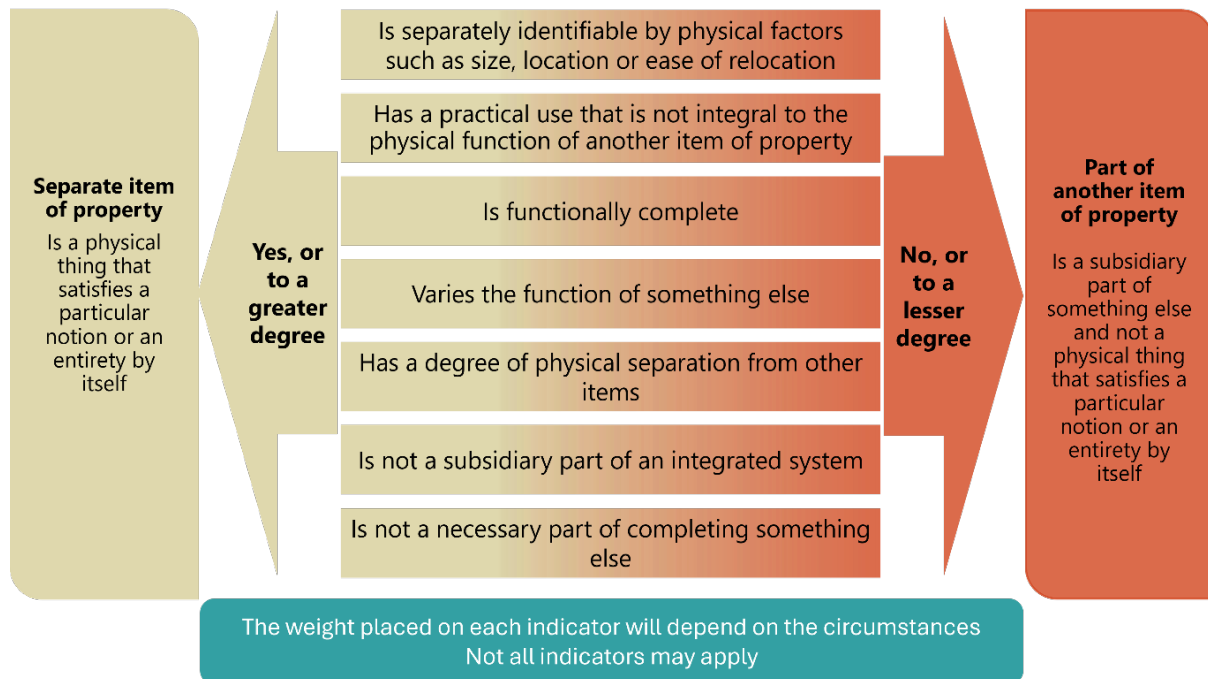
¹ Where a taxpayer is to use property acquired for exempt purposes and cannot claim some GST input tax, some of the input tax paid may form part of the property's cost, as "that which must be given in order to acquire something" (*Tasman Forestry Limited v CIR* (1999) 19 NZTC 15,147 at 15,156).

Part of another item of depreciable property

20. Section EE 38(1)(d) requires that the item has not become and will not become part of other property that is depreciable property. That is, for a deduction under s EE 38 to be available, the low-value asset must be a separate item of property. This analysis involves applying the same considerations used to identify what is the appropriate item of property for depreciation purposes. It is also necessary to determine whether an item forms, or will form, part of another item. For the Commissioner's general guidance on identifying the relevant item of property, see [IS 25/03: Income tax – identifying the relevant item of property for depreciation purposes](#).²
21. As IS 25/03 explains, determining whether an item forms part of another item is a question of fact and degree, and answering it requires exercising judgement based on the overall impression in the individual case. Making that judgement involves applying an "entirety test" to identify the relevant totality or entirety of a physical thing that satisfies a particular notion. The courts have considered the following factors are relevant in applying this test.
22. First, factors that might suggest the item under consideration **is not part** of another item include whether it:
- is physically distinct from a wider asset that it might belong to;
 - is functionally complete (to some degree); or
 - varies the function of another item (rather than just allowing another item to fulfil its existing function).
23. Second, factors that might suggest the item under consideration **is part** of another item include whether it:
- has a physical connection with other items;
 - is part of an integrated system; or
 - is a necessary part to complete something else.
24. The first and second groups of factors are interrelated, as Figure | Hoahoa 2 illustrates.

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

Figure | Hoahoa 2 – Factors to consider in determining whether an item is separate from or part of another item of property



Note: This figure is reproduced from IS 25/03.

25. Example | Tauira 2 and Example | Tauira 3 illustrate how these factors determine whether a low-value asset forms part of another item of depreciable property.

Example | Tauira 2 – Item forms part of other depreciable property

A café owner purchases a commercial espresso machine for \$8,000. To enable the machine to operate, they separately acquire, for \$600, a specialised internal water filtration cartridge designed specifically for that model. The cartridge is installed inside the machine housing and must be present for the machine to function without damage.

The cartridge forms part of the espresso machine rather than being a separate item of property for the following reasons:

- **Not functionally complete:** The cartridge has no independent practical use; its only purpose is to enable the espresso machine to operate.
- **Necessary to complete the larger item:** The espresso machine would be considered incomplete or unable to function properly without the cartridge.
- **Part of an integrated system:** The cartridge operates as an internal component contributing to the unified function of producing coffee. Its function is absorbed into that wider system.

- **Physical and functional integration:** The cartridge is installed within the espresso machine and is not separately identifiable or used outside it.

Accordingly, the cartridge forms part of the espresso machine (another item of depreciable property).

Section EE 38(1)(d) applies and prevents the cartridge from qualifying as a low-value asset. The cost of the cartridge is instead capitalised into the cost of the espresso machine and depreciated with it.

Example | Tauira 3 – Item does not form part of another item of depreciable property

A landscaping business owns a ride-on lawn mower. It separately purchases a detachable seed-spreader attachment for \$900. The spreader clips onto the rear of the mower when in use but can be removed easily and stored separately. It can also be towed by other compatible equipment.

The seed-spreader is a separate item of property for these reasons:

- **Distinct function:** The mower cuts grass; the spreader distributes seed or fertiliser. These are different practical uses.
- **Varies the function of the mower:** The attachment enables a specialised function (spreading), which is an indicator that the items remain separate.
- **Functionally complete:** The spreader includes all the components needed to perform its function (as a spreader), even though it requires towing.
- **Not necessary to complete the mower:** The mower is fully operational without the spreader.
- **Limited physical connection:** The items are only connected during use and can be separated without damage.

The spreader does not form part of the mower. It remains a separate item of depreciable property.

Accordingly, s EE 38(1)(d) does not apply, and (assuming other requirements are met) the cost of the spreader may be eligible for an immediate deduction under s EE 38(3).

“Group acquisition” rule

26. Section EE 38(1)(f) prevents a taxpayer from applying s EE 38 by splitting up a group of items that they acquired from the same supplier at the same time where the items would have had the same depreciation rate and, when their costs are aggregated, the total exceeds the threshold value. It also contains specific rules for trading stock.
27. In the Commissioner’s view, the question of whether a taxpayer acquired such items at the same time from the same supplier must be considered from a transactional perspective. A taxpayer acquires an item when they obtain sufficient rights in the item to be regarded as its owner. This is consistent with the general depreciation rules, which depend on the taxpayer being the owner of the depreciable property.
28. In most cases, acquisition occurs when title or proprietary rights pass under the contract or relevant property law, to the extent necessary for the taxpayer to be treated as the owner of the low-value asset. For instance, under the Contract and Commercial Law Act 2017, property in goods passes when the parties intend it to pass. That intention is determined from the contractual terms, the conduct of the parties and the surrounding circumstances (s 144). Relevant contractual terms may include those relating to retention of title, passing of risk, insurance, delivery and payment.
29. A taxpayer will acquire a group of items at the same time if ownership of each item passes to the taxpayer at the same time. Similarly, determining that items are from the “same supplier” requires that the same legal entity transfers ownership to the items.
30. The requirements “at the same time” and “from the same supplier” are cumulative; that is, both must be satisfied. Separate transactions with the same supplier at different times will not necessarily be aggregated, even if they occur on the same day. While transactions with different branches of the same supplier (ie, the same legal entity) may occur, they are unlikely to arise at the same time.
31. Even where a taxpayer acquires a group of items from the same supplier at the same time, those items will not be aggregated unless each item, considered individually, attracts the same depreciation rate.
32. The main effect of this rule is to prevent taxpayers from meeting the cost threshold in s EE 38 for a group of items they acquired at the same time from the same supplier by splitting up those items after purchase. Example | Tauira 4 illustrates how the rule can apply to a group of items.

Example | Taura 4 – Acquiring a group of items

Saxon is a self-employed private chef. On 1 June 2026, he purchases three specialised chef's knives online for \$1,216 (GST-exclusive). Each knife is usually sold separately for under \$500 (GST-exclusive), but Saxon purchases the knives all at once as part of a special promotion.

For depreciation purposes, each knife is a separate item of property. Each knife has an individual cost below \$1,000 as a separate item of property.

However, all three knives are:

- acquired at the same time;
- purchased from the same supplier; and
- subject to the same depreciation rate.

The knives are therefore a "group of items" under s EE 38(1)(f). Under subpara (i), the total cost of all items in the group must be below the \$1,000 threshold for s EE 38 to apply.

Because the total cost of the knife set (\$1,216) exceeds this threshold, the items do not qualify as low-value assets under s EE 38. Saxon must depreciate each knife under the ordinary depreciation rules.

33. In relation to trading stock, s EE 38(1)(f)(ii) addresses situations where the group of items generally constitutes trading stock:
 - (ii) if the items generally constitute the person's trading stock, the total cost for all the items in the group not treated by the person solely as trading stock is equal to or less than the threshold value given for the item by subsection (2).
34. This provision deals with the situation where a taxpayer acquires a group of items at the same time from the same supplier – as commonly occurs with trading stock – but the taxpayer uses some of the items as depreciable property, rather than trading stock. In such cases, for the purposes of the cost threshold, the taxpayer only needs to add up the costs of the items that they do not use solely as trading stock.
35. Example | Taura 5 and Example | Taura 6 further illustrate how the "group acquisition" rule applies.

Example | Taura 5 – Section EE 38(1)(f) – acquiring assets at the same time from the same supplier

Top Business Solutions Co Ltd operates a professional services firm. On 1 April 2026, it purchases from a single supplier:

- two office desks at \$400 each, GST-exclusive (total \$800); and
- two filing cabinets at \$150 each, GST-exclusive (total \$300).

The total cost of the purchase is \$1,100.

The desks and cabinets are capital assets (ie, they are not trading stock). They are also:

- acquired at the same time;
- purchased from the same supplier; and
- subject to the same depreciation rate.

Accordingly, the desks and cabinets are a “group of items” under para (f) of s EE 38(1).

Subparagraph (i) of s EE 38(1)(f) applies, as subpara (ii) is limited to groups of items that generally comprise trading stock.

Under subpara (i), for s EE 38 to apply, the total cost of all items in the group must be below the \$1,000 threshold.

Because the total cost of the group (\$1,100) exceeds this threshold, the items do not qualify as low-value assets under s EE 38. Instead, Top Business Solutions Co Ltd must depreciate each item following the ordinary depreciation rules.

Example | Tauira 6 – Section EE 38(1)(f) – acquiring a group of items that includes trading stock

Real Grindz Coffee Co Ltd operates a retail business selling coffee-related equipment and supplies. On 1 November 2026, it purchases 10 espresso machines at a unit cost of \$850 from a single supplier for the purposes of resale as trading stock.

While Real Grindz intends to sell nine of the espresso machines in its business, it will use one of the machines as an in-store demonstrator during normal trading hours and in after-hours barista training courses.

The purchase meets the requirements for the “group acquisition” rule because Real Grindz has acquired a group of items:

- at the same time;
- from the same supplier; and
- the items (the espresso machines) have the same depreciation rate.

However, the items generally comprise the company's trading stock, in the sense that most of them are trading stock. Under s EE 38(1)(f)(ii), a taxpayer only needs to aggregate the costs of the items that it does not use solely as trading stock.

As the cost of the machine that Real Grindz uses as a demonstrator is below the \$1,000 threshold, a deduction under s EE 38 would be available for its cost, provided all other requirements are satisfied.

Variation

The facts are the same, except that the purchase Real Grindz made on 1 November 2026 does not include any espresso machine for use as a demonstrator. It also includes the purchase of two blenders for \$105, which Real Grindz will use to prepare snacks for the barista training courses.

Blenders and espresso machines have the same depreciation rate, and Real Grindz has acquired these items at the same time and from the same supplier. Therefore, the blenders and espresso machines are a "group of items".

Real Grindz does not sell blenders, so it does not usually acquire these items as trading stock. Still, the group of items are "generally" trading stock, in the sense that most of the items are trading stock. Accordingly, subpara (ii) of s EE 38(1)(f) applies.

Under subpara (ii), Real Grindz only needs to aggregate the costs of the blenders. As the costs of the blenders are below the \$1,000 threshold, a deduction would be available under s EE 38 for their cost.

Income on disposal or change of use

36. Section EE 38(5) provides that, where a person disposes of an item for which a deduction was allowed under s EE 38(3), the consideration derived on disposal is treated as income in the year of disposal.
37. Similarly, s EE 38(6) provides that a change of use of a low-value asset may be treated as a disposal. A taxpayer is treated as disposing of a low-value asset when they cease to use it, or to have the item available for use, mainly for deriving assessable income or carrying on a business (other than use for providing a fringe benefit).
38. In this context, "mainly" means more than 50%. Accordingly, where the income-producing or business use of the asset falls to 50% or less, a deemed disposal arises in the year of that change in use. Section EE 38(7) provides that the consideration for this deemed disposal is the asset's market value.

39. As a practical compliance measure, taxpayers should keep a record of low-value assets, for example, in a fixed asset register, so they can identify disposals or changes of use and calculate any income arising.
40. Example | Tauira 7 and Example | Tauira 8 show how income arises when a taxpayer disposes of a low-value asset or where their use of that asset changes to a use that does not produce income.

Example | Tauira 7 – Disposal and income

Kari operates a graphic design business and purchases a laptop for \$950 in October 2026.

The laptop satisfies all criteria in s EE 38. Kari elects to claim a full deduction for its cost in her 2026–27 income year.

Kari finds the laptop is inadequate for her purposes so in August 2027 acquires a more powerful desktop computer for business use. She trades in the old laptop for a \$300 credit against the purchase of the new computer.

The conditions of s EE 38(5) are satisfied because:

- a deduction under s EE 38(3) has been allowed; and
- Kari has disposed of the laptop for a consideration of \$300.

Kari must include \$300 as income in her 2027–28 return.

Example | Tauira 8 – Deemed disposal and income on change of use

The facts are the same as in Example | Tauira 7, but Kari keeps the laptop for personal use rather than trading it in. At that time, the market value of the laptop is \$400.

The conditions of s EE 38(6) are satisfied because:

- a deduction under s EE 38(3) has been allowed;
- Kari is no longer using the laptop mainly for deriving income or carrying on a business; and
- the use of the laptop is not subject to fringe benefit tax.

The change in use of the laptop from business to private purposes is treated as a disposal at market value in the 2027–2028 income year under s EE 38(7).

Kari must include \$400 as income in her 2027–28 return.

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References | Tohutoro

Legislative references | Tohutoro whakatureture

Contract and Commercial Law Act 2017, s 144

Income Tax Act 2007, subpart DI, ss EE 6, EE 7, EE 38

Case references | Tohutoro kēhi

Tasman Forestry Limited v CIR (1999) 19 NZTC 15,147

Other references | Tohutoro anō

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