

22 February 2010

Honourable Bill English
Minister of Finance
Parliament Buildings
Wellington

Honourable Peter Dunne
Minister of Revenue
Parliament Buildings
Wellington

Dear Ministers

Concern Over Tax Depreciation – Airport Buildings

The New Zealand Airports Association (NZ Airports) is supportive of a taxation regime that promotes productivity and growth. However, airports throughout New Zealand have major concerns over the possible removal of tax depreciation on buildings because of the likely negative effect on growth in trade and tourism.

The Tax Working Group (TWG) in its report, *A Tax System for New Zealand's Future*, considered that one option for broadening the tax base would be:

Removing tax depreciation on buildings (or categories of buildings) if empirical evidence shows that they do not depreciate in value.

The experience of our airport members is unequivocally that our passenger and freight processing buildings do depreciate. Frequent travellers will have no difficulty understanding that changes in aviation technology (e.g. larger aircraft), building technology (e.g. 'green' buildings), regulatory requirements (e.g. aviation security and border agency requirements), airline business changes (e.g. low cost versus full service airlines) and growth, mean that airport buildings can and do lose value over time, and are eventually disposed of when no longer fit for purpose. This is supported by international evidence¹.

If the supporting argument for removing depreciation on commercial buildings is that the combined land and building value generally appear to appreciate, NZ Airports stresses that land and buildings are separate issues, and are treated as such by airports and other interested parties (such as the airlines and regulators).

You have probably noted several passenger terminal development projects in New Zealand, both now and in the recent past. The current Wellington Airport international terminal and the Christchurch Airport domestic terminal developments are just two of the more visible examples.

¹ Patry, A. (2007) *Economic Depreciation and Retirement of Canadian Assets: A Comprehensive Empirical Study* [Statistics Canada]. Cited in *Tax Depreciation – non-residential buildings (KPMG Report to Property Council New Zealand, February 2010)*, Patry found that passenger terminals (such as air, boat, bus and rail) had an economic depreciation rate of 6.0 percent.

In the Christchurch case the entire old building will be removed and replaced, and the previous domestic terminal at Wellington Airport was completely demolished in 1999. NZ Airports is aware of nine member airports with current, planned or forecast terminal development projects². It would be completely unrealistic to suggest that there is no depreciation of such buildings, or that these are not depreciable property in terms of the Income Tax Act 2007³.

New Zealand's airports are very conscious of our high profile role in welcoming and farewelling 99 percent of New Zealand's international visitors, facilitating efficient and effective border processing, and enabling tourism and business throughout the country. However, the flow on effects of removing depreciation on buildings such as terminals will be:

- lower quality of air transport infrastructure, as there will be reduced incentives to reinvest and stay abreast of growth; or
- higher airport charges.

Both are highly undesirable outcomes for airports, travellers and the New Zealand economy.

NZ Airports strongly submits that airport buildings such as passenger terminals clearly lose value over time, and that removing tax depreciation for buildings would have only negative consequences for airports and the key role that air travel plays for the benefit of all New Zealanders.

Yours sincerely

Kevin Ward
Chief Executive
New Zealand Airports Association

c.c. Hon Steven Joyce, Minister of Transport

Hon Nathan Guy, Associate Minister of Transport

² Queenstown, Christchurch, Nelson, Wellington, Paraparaumu, Tauranga, Gisborne, Auckland, Whangarei

³ "property that, in normal circumstances, might reasonably be expected to decline in value while it is used or available for use in [either] deriving assessable income; or in carrying on a business for the purpose of deriving taxable income"