Shaikh & Co
Chartered Certified Accountants
Registered Auditors

www.shaikhandcoaccountants.com
enquiries@shaikhfinancing.com

Is it a repair or improvement (revenue or capital expenditure)?

It can often be difficult to distinguish between repairs and improvements, however, it's extremely important to report them correctly for tax purposes.

Property investors generally want to report costs as repairs because it would result in an immediate tax break. HMRC, on the other hand, generally prefer investors to report costs as improvements because the tax relief would only apply once the asset is sold.

Repairs are often referred to as revenue expenditure and improvements are referred to as capital expenditure. Let's take a look at the differences between these cost types with specific examples for property investors.

Repairs

A repair or revenue expenditure refers to the money spent on maintaining and keeping an asset in a good working condition.

This includes repairs to a newly acquired property that requires work to be done, as long as the property was lettable at the time of purchase.

This also includes replacing outdated items with the nearest modern equivalent. For instance, replacing single glazed windows with double glazed windows or replacing lead pipes with copper or plastic pipes.

In regards to kitchen repairs, the costs involved in the refurbishment would also be considered revenue expenditure. This may include stripping out the old items, replacing worktops and wall units, retiling, plastering and wiring. Only similar replacements to the original kitchen can be claimed as repairs. Any new additions (e.g. storage or additional appliances) would be considered an improvement.

Improvements

An improvement or capital expenditure refers to money spent on an alteration that increases the value of the property, changes its main function or extends the life of the building.

This includes newly purchased properties that were not in a lettable state at the time of purchase and require renovations to be in a condition to let. If significant work is required, you should speak with an accountant to determine the status.

Upgrading any materials or appliances to a superior quality item would also be considered an improvement.

Integral features

There are special rules surrounding 'integral features' such as electrical, cold water, water heating and air cooling or purification systems.

If you replace more than 50% of an integral feature within 12 months, this is considered an improvement (capital expenditure) for capital allowances purposes. If you replace less than 50% within the year, this will be treated as a repair (revenue expenditure).

For example, let's say you have a 6 room property and will be replacing the electrical system in 2 rooms within 12 months. Because you are replacing less than 50% of the property's electrical system, this will be treated as revenue expenditure.

Summary

When considering the cost type of an expense, it's best to consider whether the work done will significantly increase the market value of the property.

For instance, replacing the roof would be a repair, however, upgrading the kitchen with superior materials and appliances would be an improvement. If in doubt, feel free to contact us for advice.