Tax Question of the Week

“An individual acquires a buy-to-let property and will be carrying out some repairs before taking on tenants. Will the repair costs qualify for a tax deduction?”

This is a fairly common question which is often fraught with difficulty. The answer very much depends upon the facts. The discussion which follows relates to genuine repair and maintenance costs and not to works which result in a significant improvement over the asset’s original condition. The cost of such works will invariably be treated as capital. It’s generally accepted that the cost of routine repairs and maintenance, for example redecorating, carried out after a property acquisition is a revenue cost.

Similarly, work to repair or reinstate a worn or dilapidated asset is usually deductible as a revenue expense and HMRC accept that carrying out repairs shortly after acquisition does not necessarily point to a capital expense. However, they also point out that if buying a property in good condition is capital then the combined cost of buying a dilapidated property and putting it into good condition must also be capital.

So, in their view, the cost of repairs carried out after buying a property which was not in a fit state to let until the repairs had been carried out is a capital cost and even more so if the price paid for the property clearly reflected its dilapidated state. This can perhaps be contrasted with the situation where the property is capable of being used in its current state but the new owner wishes to carry out some repair and maintenance work to appeal to a particular class of tenant, in which case the expenditure is, arguably, revenue in nature and deductible.

Morgan Reach is a well-established firm of accountants with offices in London and Birmingham. Well known for its innovative approach and placing its clients at the forefront of the practice, Morgan Reach provides a variety of accounting services such as compliance, tax services, company secretarial services, business consultancy and accounts as well as strategic growth advice for an extensive range of business sectors including manufacturing, healthcare, construction and property, retail and entertainment, media and sports.