

Income tax – Repairs and maintenance

Repairs and maintenance can represent a substantial expense within a business and therefore can have a huge impact on the tax you have to pay. For this reason, Inland Revenue has a strict policy on repairs and maintenance clearly explaining what is considered repairs and maintenance and deductible and what is considered capital expenditure.

Repairs and maintenance generally

What are repairs?

- ✦ 'Repair' is restoration by renewal or replacement of subsidiary parts of the whole. Expenditure of this nature can be an allowable deduction.
- ✦ 'Renewal' is reconstruction of the entirety (not necessarily the whole, but of substantially the whole subject-matter).
- ✦ Only expenditures on repairs and maintenance are deductible as 'repairs'. The principal features are that:
 - ✦ Expenditure on repairs, maintenance, and alterations must be not be capital expenditure.
 - ✦ Expenditure required to maintain an asset in the same condition as when you acquired it is deductible.
 - ✦ Expenditure on an asset over and above making good wear and tear is not deductible.

Repairs and maintenance to ancillary plant

Expenditure is deductible when it is:

- (a) Repairs and maintenance of existing equipment; and
- (b) Alterations not amounting to significant improvement.

Expenditure is of a capital nature and not deductible when it is:

- (a) Installation of new equipment;
- (b) Replacement of a whole new asset; and
- (c) Major alterations to the extent that they are an improvement.

Repairs and maintenance for rental investments

Investments in rental properties have proved to be very attractive to New Zealand taxpayers. However, property owners should be aware of the following:

- ✦ Repairs and maintenance expenses are only claimable if the repairs were carried out while the tenant was still living in the house or the house was still available for renting.
- ✦ Often overseas owners returning home realise the damage done to the property *after* the tenants have moved out – and because of the change to private use, IRD may not allow a claim for repairs of such damages. There have been instances in the past where such claims have not been allowed. Unless IRD is satisfied with documentary evidence to the contrary, a couple owning a property jointly cannot split rental losses unevenly. Often the higher income earning spouse claims all or most of the losses, when they should be split equally.

Repairs and maintenance to buildings and fittings

You need to take particular care with repairs and maintenance on buildings and fittings. The following is a list of common types of repairs to building and fittings, along with comment on how the expenditures are likely to be treated for income tax purposes.

Payment for:	Expense	Asset to be depreciated
Architects' and consultants' fees		X
Braces to strengthen a building — structural alteration		X
Building alterations – cutting a new doorway		Unless alteration to inner fixtures.
Building alterations – replacing doors	X	
Building alterations – installing of new doors where no door existed		X
Building site expenses	X	
Cartage		X
Dilapidation and deferred repairs and maintenance	Normal recurring expenditure	Work of a major nature
Drainage, sewerage		X
Electrical work		x
Fire or earthquake precautions		x
Fire losses		X
Foundations		X
Hand basins and toilets		Installation
Heating systems	Repairs	Installation
Lawns and levelling		X
Lifts		X
Murals		X
Parapets		Initial or full replacement
Paths and flagstones	Normal repairs	X
Pillars	Moved to new position	Removed altogether and replaced
Ramps		X
Rental property repairs	Must form part of a continuous income-earning process, or one which has discontinued but is soon to be resumed. It must be related to income earned at that time or shortly afterwards.	
Septic tanks		X
Shelter trees (other than farmers)		X
Shop fronts modernisation		X
Skylights		X
Strengthening building		X
Strongroom	Moved to new position	Installation
Windows	Replacement of damaged window with new window of same type.	<ul style="list-style-type: none"> ✦ Construction ✦ Replacement of wooden framed with metal ✦ Removal of windows and making good the walls
Windows tinting	Subsequent treatments	Initial treatment
Yard		X

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✦ If you consider that any of the issues contained in this fact sheet may affect you.

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