



BUSINESS & PERSONAL TAX SUPPORT

# Unincorporated landlords

Tax relief for property repairs and improvements

Update 2024/25

**The fact that repairs are carried out at the same time as improvement works does not make repair expenditure capital expenditure; it remains deductible as revenue expenditure. However, good records and itemised bills and quotes should be kept so that repairs can be correctly identified.**

HMRC also accept the replacement of a kitchen or bathroom with a modern equivalent is a repair rather than an improvement.

## Improvement expenditure

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Where work is undertaken on a property which results in considerable improvement or enhancement to the property, the associated expenditure is capital expenditure not revenue expenditure. As such, it is not deductible in calculating the profits of the property rental business. Instead, relief is given through the capital gains tax system when the property is sold or otherwise disposed.

Expenditure which would be classed as improvement expenditure and treated as capital expenditure includes:

- renovating a property purchased in a run-down state;
- converting a disused barn into holiday accommodation;
- building a new access road to the property;
- replacing old single-glazed windows with superior double-glazed windows.

However, where the improvement arises only as a result of the use of modern materials, the cost is normally allowable as a repair as long as the materials used are broadly equivalent to the originals. HMRC accept the replacement of wooden beams with steel girders and lead pipes with copper pipes as being revenue expense in the absence of other capital indicators (such as adding an extra storey).

## Cost of the property

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The cost of purchasing the property is capital expenditure. This is allowable for capital gains tax

purposes when computing any gain or loss on the disposal of the asset, along with any incidental costs of acquisition, such as stamp duty land tax and legal fees.

## Alterations to the property

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Expenditure incurred on making extensive alterations to a property, such as the addition of an extension or a loft conversion, is capital expenditure. As such, the expenditure is not deductible in computing the rental profits. Instead, as with the original cost of the property, expenses incurred in undertaking significant alterations are allowable expenses for capital gains tax purposes and are deducted in calculating the gain or loss on the disposal of the property.

## Furniture and fixtures

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The way in which expenditure on furniture and fixtures is treated depends on the type of let. Different rules apply to furnished holiday lettings (FHL) and to residential lets.

Expenditure on assets used in ordinary residential properties cannot be deducted under the cash basis capital expenditure rules where accounts are prepared on the cash basis.

## Relief for replacement of domestic items

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It is not permissible to deduct the cost of domestic items, such as furniture, furnishings and white goods, when these are initially provided. However, a dedicated relief allows landlords letting residential accommodation to deduct the cost of replacement domestic items, as long as certain conditions are met. This relief does not apply to furnished holiday lettings or if rent-a-room relief has been claimed.

The relief is available if the following four conditions are met:

1. The landlord carries on a property business that includes the letting of a residential property.

2. A domestic item has been provided for use in that property and expenditure is incurred on a replacement for that item. The new item replaces the old item, which is no longer available for use by the tenants. The new item is provided solely for use by the tenant.
3. The expenditure is incurred wholly and exclusively for the purposes of the property business but cannot be deducted under the cash basis expenditure rules.
4. Capital allowances cannot be claimed in respect of the item.

The cost of a like-for-like replacement is deductible in calculating the profits for the period in which replacement expenditure is incurred, along with any associated costs, such as delivery or disposal costs. If any income is received from the sale of the old item, this must be brought into account in calculating profits.

If the replacement is superior to the original (for example, a fridge is replaced with a fridge-freezer), the deduction is capped at the cost of a like-for-like replacement (i.e., an equivalent fridge).

## Capital Allowances

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The capital allowances legislation treats UK and overseas property businesses and furnished holiday letting businesses in the UK and the EEA as qualifying activities for capital allowances purposes. This means that capital allowances may be available for qualifying plant and machinery. However, unless the business is a furnished holiday letting business, capital allowances cannot be claimed in respect of furniture and furnishings.

Furnished holiday lettings businesses are not entitled to the relief for replacement domestic items. However, they are able to claim capital allowances of furniture and furnishings in the property. Where the annual investment allowance (AIA) limit remains available, 100% relief for the expenditure can be claimed in the period in which the expenditure was incurred. However, if the AIA limit has been used up, or the landlord does not want to claim the AIA, relief is given in the form of writing down allowances instead. Capital

allowances must be claimed. Claims are optional and can be tailored, for example, to prevent personal allowances being wasted.

## Furnished holiday lets (FHL)

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Please note, the favourable tax treatment of FHL property lets is to be abolished from 6 April 2025, and should be taken into account if you are considering investment in repairs or improvements to FHL properties in the coming months.

## Record keeping

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It is important that you keep detailed records of amounts spent on your property, together with associated invoices, quotes etc.

## We can help

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We can help you determine whether expenditure on your property is capital or revenue in nature and ensure that available reliefs are claimed.