

## Revenue Expenditure on Building Refurbishment

### Capital or Revenue?

Capital expenditure normally represents an outlay on an asset such as a building, plant and machinery, furniture and fittings, etc, or an improvement to an existing building. Tax relief is only available on expenditure on certain assets over varying periods.

Revenue expenditure represents such payments as rent, hire charges or repairs and maintenance. In other words it is expenditure not involving the acquisition of an asset, or where it would not bring about a lasting benefit. Revenue expenditure will qualify for tax relief in its entirety in the year in which the expenditure is incurred.

As a property owner, expenditure incurred on the acquisition or development of a property is capital expenditure and the only tax deductions allowable will be for plant and machinery and possible building allowances. However, when property refurbishments are carried out, the works may well contain an element of repairs and maintenance, which are revenue in nature and as such, fully tax deductible in the year of expenditure.

It is therefore important to identify and distinguish between that expenditure which is revenue, and that which is capital.

### Repairs and Renewals

Expenditure on repairs and maintenance is revenue. Expenditure on an improvement or a renewal is capital.

The difference between revenue and capital can be difficult to determine, but the following tests should apply:

Is expenditure for the purpose of maintaining the asset in its present state or at present value?	If so, the expenditure is revenue.
Is the effect of the expenditure to alter the nature of the asset, or to increase its intrinsic value?	If so, the expenditure is capital.
Is expenditure for cyclical maintenance, eg regular redecoration or running repairs of the building's services?	If so, the expenditure is revenue.
Is expenditure for replacement or renewal of components to upgrade the building, eg, new lifts or heating?	If so, the expenditure is probably capital, but will depend on whether replacement was essential, rather than just a repair.
Did the purchase price of the building reflect its condition?	* Works to bring a building up to a reasonable standard will be capital if they are reflected in the purchase price.
Will expenditure increase the rental value of the building?	If so, the expenditure is capital.

### \* Post acquisition refurbishment

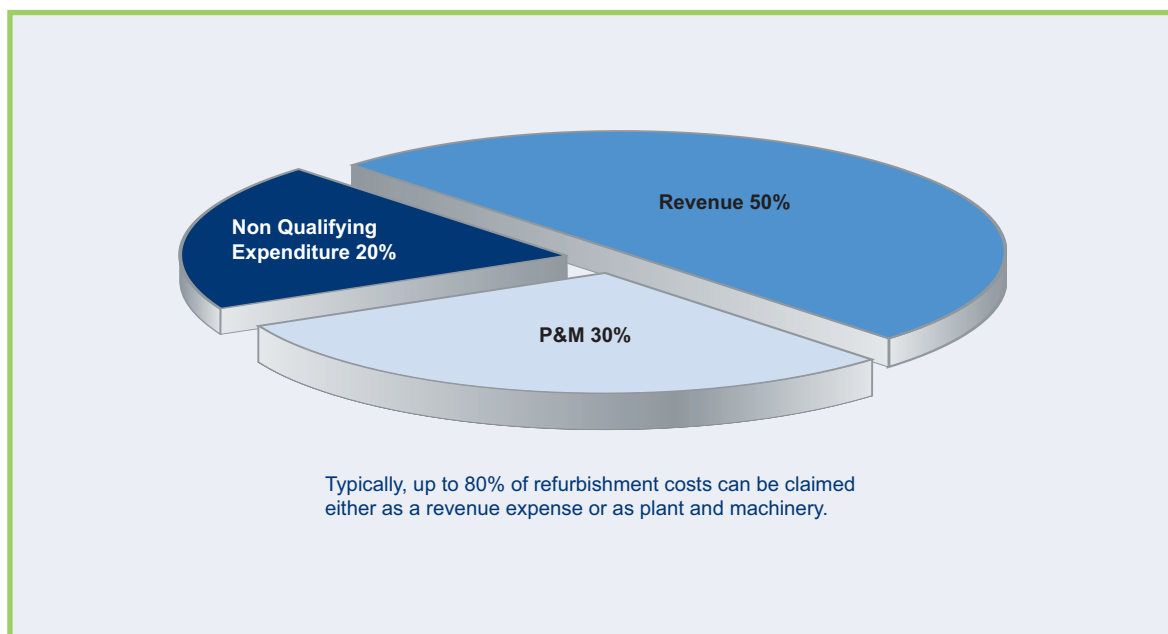
Of particular interest is the situation that will occur when a property is refurbished shortly after acquisition. The whole refurbishment cost will normally be treated as capital expenditure unless it can be demonstrated that the purchase price of the property was not reduced by the condition of the property, that the required repairs did not affect the use of the property and that the trade could continue in the property before refurbishment. Refer *Odeon Associated Theatres Ltd v Jones* CA 1971 48TC257.

For further information or a capital allowances assessment without obligation

Tel: +44 (0)20 8416 0077 or Email: [mail@pjb.com](mailto:mail@pjb.com)

[www.pjb.com](http://www.pjb.com)

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### Deferred Revenue Expenditure

From periods starting after 30 June 1999 the Inland Revenue has adopted an approach where Deferred revenue expenditure is treated in the tax computations as it is treated in a company's accounts.

Deferred revenue expenditure is revenue expenditure that has been capitalised and not directly written off to the profit and loss account.

Effectively, a tax deduction for deferred revenue expenditure can only be made when it is charged to the profit and loss account. Therefore, as an example, when a property company incurs revenue expenditure, which is capitalised and not charged to the profit and loss account until the property is sold, the revenue expenditure will only be allowed when it is charged to the profit and loss account.

For a property company to take advantage of any revenue deductions, a detailed assessment of repairs and maintenance works should be undertaken before all costs are capitalised in the companies accounts. Therefore, properly identifying revenue expenditure in the accounts and ensuring the proper deduction in the year of expenditure.

### Relevant Major Cases

*Ounsworth v Vickers Ltd KB 1915, 6 TC 671* deals with the partial restoration of an asset deemed to create a new asset, and therefore treated as capital.

*Law Shipping Co Ltd v CIR CS 1923, 12 TC 621* deals with the cost of repairs which were deemed necessary and formed part of the cost when the asset (a ship) was acquired, and therefore treated as capital.

*Odeon Associated Theatres Ltd v Jones CA 1971, 48 TC 257* deals with the cost of repairs to cinemas, necessary at the time of acquisition, but did not affect the purchase price, and was therefore treated as revenue.

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