TAX YEAR
2023

Repairs vs. Improvements

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Repairs vs. Improvements

Generally, a current business deduction is allowed for the cost of repairs and maintenance incurred during the year. On the other hand, the amounts paid to acquire, produce, or improve tangible property must be capitalized. Since repairs and improvements often have very similar characteristics, it can be tricky to classify the expenditures. However, correct classification is important because the cost of repairs can generally be deducted in the year paid, while improvements must be capitalized and the deduction taken over several years through depreciation.

An improvement requiring capitalization occurs with an addition to or partial replacement of property that results in a betterment of the unit of property, restores the unit of property, or adapts the unit of property to a new use. The cost of an improvement must be capitalized and depreciated over a certain number of years as if the improvement were separate property.

Example: *Nina has a truck she uses for her contracting business. Her truck was damaged and the cost to repair it is considered a deductible repair cost. Routine maintenance on the truck such as engine tune-ups and oil changes are also currently deductible expenses. Nina added a hydraulic lift to her truck, which improved its functionality. The expense of adding the lift is an improvement that must be capitalized and depreciated over the truck's remaining useful life.*

Example: *Glen owns a rental house and the roof on the unit is leaking. Glen is comparing the costs and benefits of fixing the leaking roof with replacing the entire roof. Glen can deduct the cost of repairing the leak as a rental repair expense. However, if Glen completely replaces the roof, the new roof is an improvement because it increases the value and lengthens the life of the property. Glen must capitalize and depreciate the cost of a new roof.*

Common Repairs vs. Improvements

Repairs	***Improvements***
Costs that: • Keep the property in good operating condition. • Do not materially add value to the property. • Do not substantially prolong the property's life.	Costs that: • Improve or better the property. • Restore the property. • Adapt the property to new or different uses.
Deductible as a current expense.	*Must be capitalized and depreciated.**
Examples: • Repainting inside or out. • Fixing gutters. • Fixing damaged carpet. • Fixing leaks. • Plastering. • Replacing broken windows. • Servicing office equipment. • Cleaning and lubricating machinery.	Examples: • Room additions. • Remodeling. • Landscaping. • New roof or flooring/carpeting. • Wiring upgrades. • New heating/cooling and plumbing systems. • Installing a security system. • Replacing gravel driveway with concrete.

* The cost of an improvement is depreciated according to a prescribed class and recovery period of the underlying property. Most non-real estate assets such as computers or machinery are depreciated over five or seven years, with residential real estate depreciated over 27½ years, and nonresidential business property over 39 years.