

## THE DIFFERENCE BETWEEN REPAIRS, MAINTENANCE AND IMPROVEMENTS

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It's a common question among new property investors "What's the difference between repairs, maintenance and improvements?". This is important information to know if you're going to invest in property because it affects your tax deductibility and hence your cashflow.

Many landlords forget about the new tap or roof repair that they can claim a tax benefit for because their primary focus is on rental returns and capital gains. But it's the smaller things that can add up to a big tax advantage if you document every item. So the first thing to do is understand the difference between them.

### 1. Repairs

A repair is usually partial and restores something to its original state e.g. repairing part of a fence by replacing two palings.

### 2. Maintenance

Maintenance is work that prevents deterioration or fixes current deterioration e.g. painting your property or oiling the garage door.

Repairs and maintenance must relate directly to wear and tear or damages that occurred due to renting out your property. The ATO provides the following examples of repairs and maintenance for which you can claim an immediate deduction in the same year.

- Gardening and lawn mowing
- Cleaning
- Pest Control
- Servicing a water heater
- Replacing guttering damaged in a storm
- Replacing part of a fence due to a fallen tree

### 3. Improvements

An improvement makes something better than it was originally or provides something in a new and more valuable or desirable form. They generally improve the property's income production or expected life. A repair becomes an improvement when you go beyond simply restoring an item to its original function. For example, if you replace a worn paling fence with a brick fence, you are going beyond simply repairing the fence – you are improving the fence with a better material.

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### The ATO provides the following examples of improvements:

- A new stove
- New kitchen cupboards
- Building a garage or car port
- Removing or adding an internal wall

The differing tax benefits between a repair, maintenance and improvements

Generally speaking, you can claim an immediate deduction for repairs and maintenance in the same financial year, as long as your property is being rented out.

Generally speaking, you can also claim a capital works deduction or a deduction for decline in value (depreciation) over a number of years for improvements.

The ATO provides the following example as to which improvements should be depreciated and which ones attract a capital works deduction.

#### Depreciation Deduction

- Ceiling fan (depreciated over 5 years)
- Carpet (8 years)
- Floating timber floors (15 years)
- Hot water system (12 years)
- Window curtains (6 years)
- Dishwasher (8 years)
- Air conditioner (20 years)

#### Capital Works Deduction

- Fixed floor coverings, such as tiles and vinyl
- Hand rails
- Re roofing
- Ducts, pipes, vents
- Shutters

#### Important note for new Investors

When you buy an investment property, there are often items that need repairing before you can lease the property out. The ATO has a name for this – they're called "initial repairs". They are not deductible, instead, they are considered part of the acquisition costs of the property and may be included in the capital gains tax cost base.

All the information above is general in nature. Use it as a guide only. As with most tax information, it's important to get professional advice. Speak to your accountant regarding individual repairs or improvements and get a quantity surveyor to take stock of all the items in your property that are depreciable.

If you haven't been monitoring your repairs, maintenance and improvement expenses, you might be missing out on thousands of dollars in tax benefits!