

Repair vs improvement: Why it matters to Sars



By [Graeme Palmer](#)

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When determining a taxpayer's taxable income expenditure of a capital nature, such as an improvement to an asset, is not deductible. Section 11(d) of the Income Tax Act, 1962 does however provide for the deduction of expenditure incurred on repairs for the purposes of trade. Distinguishing between a "repair" and an "improvement" is vital as section 11(d) only allows for the deduction of expenditure on repairs. To assist taxpayers in understanding the distinction, Sars released an updated *Interpretation Note 74* on 16 May 2023.



Image source: Caspar Roofing Channel from [Pexels](#)

Section 11(d) allows for a deduction of expenditure actually incurred on repairs to immovable property, machinery, implements, utensils, and other articles. This is provided that the immovable property is either occupied for the purpose of trade; alternatively income is receivable in respect of such property. Similarly, machinery, implements, utensils, and other articles must be employed by the taxpayer for purposes of trade.

If the taxpayer has recovered the expenditure of the repairs through an insurance claim, guarantee, security or indemnity, no deduction is allowed.

"Repair" has not been defined in the Act. Courts have held that it is a process of renewing, renovating or restoring decayed or damaged parts. It does not matter whether repairs are a result of an event such as a storm, fire, civil unrest, or because of wearing out, damage or deterioration through use. Expenditure incurred on maintenance can therefore be deducted provided it complies with the essential elements of a repair.

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Sars points out in its interpretation note that there is sometimes a narrow distinction between “repairs” and “improvements”. General principles on the differences have been developed by the courts:

- the repaired asset must have been damaged or deteriorated requiring replacement.
- materials used for the repair do not have to be identical to the original materials replaced.
- the purpose of the work must be to restore the asset to its original condition as opposed to creating an improvement.
- repairs can be done at the same time as improvements thus qualifying for a deduction if they can be separately identified.
- a repair must be distinguished from a renewal. The greater the restoration work in relation to the entirety, the less likely it is a repair.
- the addition of something to an asset that was not previously there is usually an improvement and not a repair.

Finally, taxpayers must be aware that deductions claimed for repairs could be recouped by Sars under section 8(4)(a) in certain circumstances, such as the recovery of the repair costs through a damages or insurance claim.

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