

FACT SHEET | PUKA MEKA

Income tax – deductibility of repairs and maintenance expenditure – general principles

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IS 26/01 FS 1

This fact sheet accompanies IS 26/01: *Income tax – deductibility of repairs and maintenance expenditure – general principles*. IS 26/01 explains when you can claim an income tax deduction for repairs and maintenance costs for physical (tangible) property and includes over 20 examples. This fact sheet gives a quick summary of the key points from IS 26/01.

All legislation references are to the Income Tax Act 2007.

Key provisions | Whakaratonga tāpua

Section DA 1 (general permission) allows deductions for expenditure incurred in deriving assessable income.

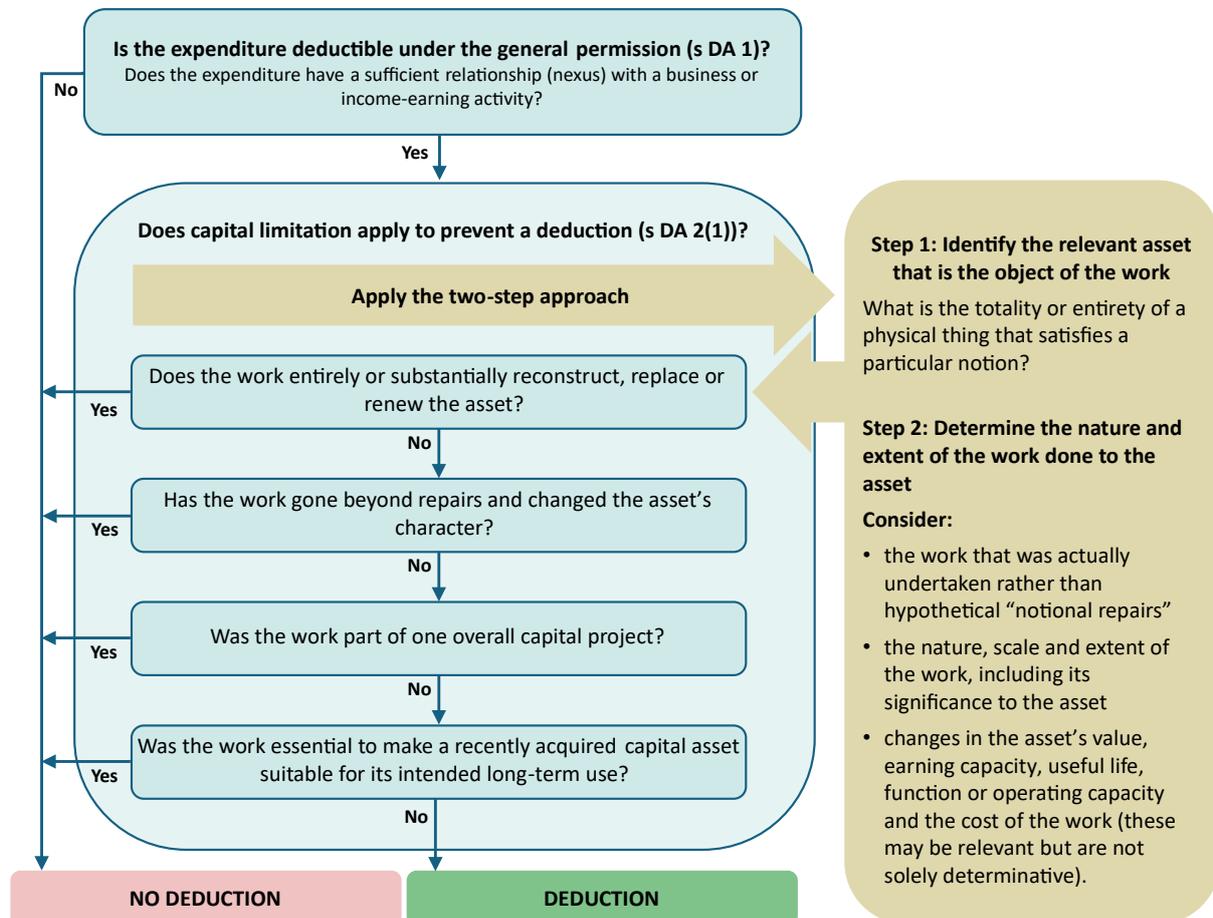
Section DA 2(1) (capital limitation) denies deductions for capital expenditure.

Introduction | Whakataki

1. IS 26/01 *Income tax – deductibility of repairs and maintenance expenditure – general principles* is about tax deductions for the cost of work carried out on physical property used in a business or income-earning activity. This work might be called repairs, maintenance, alterations or improvements.
 2. A deduction is allowed if the expense:
 - meets the requirements of the general permission (section DA 1(1)); and
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- is not prevented by the general limitations (section DA 2).
3. The general permission requires that you incur the expense to:
 - help earn income (either assessable or excluded income under the Act); or
 - be part of running a business aimed at earning that income.
 4. The guidance in IS 26/01 assumes you already meet these requirements. It focuses on the capital limitation in section DA 2(1) that prevents deductions for capital expenses.
 5. While you cannot claim capital expenses right away, you might be able to claim them gradually under the depreciation rules if they are added to the cost of an existing item of depreciable property. This will depend on satisfying the depreciation rules and the applicable rate. For example, currently capital expenditure on a passenger car is able to be depreciated at the rates of 21% straight line or 30% diminishing value, but capital expenditure on buildings is depreciable at a rate of zero percent. For more information, see [Depreciation](#) on our website.
 6. From 22 May 2025, a 20% Investment Boost deduction may be available for capital repairs and maintenance expenditure that is an improvement to an item of depreciable property, such as a commercial building. For more information see [New assets - Investment Boost](#).
 7. The following flowchart will help guide your analysis.

Figure 1 | Hoahoa 1: Summary of analytical approach



Does the capital limitation deny a deduction?

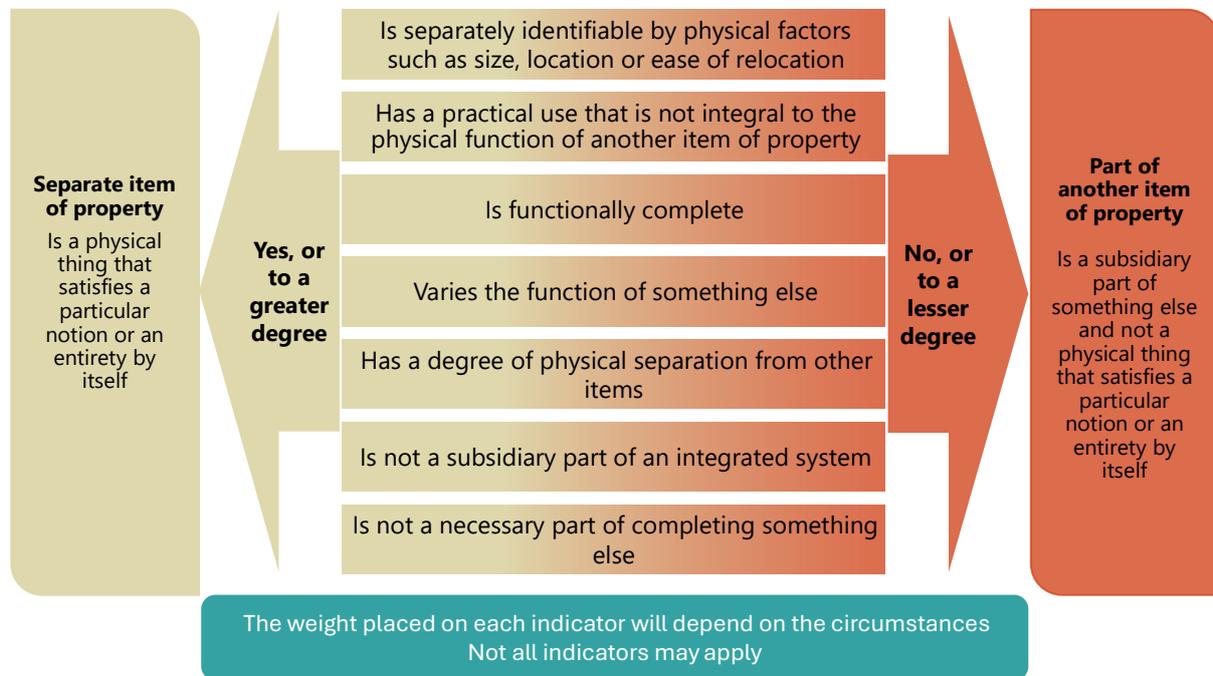
- To decide whether an expense is capital (not immediately deductible) or revenue (deductible), courts look at the full set of circumstances including what the expense is meant to achieve from a practical business point of view. Every case is unique and the courts emphasise that you must look carefully at the specific facts before applying past court decisions to different circumstances.
- However, generally the courts take a two-step approach to repairs and maintenance expenditure:
 - Identify the relevant asset that is being repaired or worked on.
 - Consider the nature and extent of the work done to that asset.

Step 1 – identify the relevant asset

10. The relevant asset is the physical object of the work that has been done. Identifying the relevant asset is always a question of fact, degree and impression. That involves assessing what actually happened, making judgements about how much or how significant the work was, and taking a practical business perspective. Defining the relevant asset too broadly or too narrowly can lead to the wrong conclusion about whether the cost of the work is deductible.
11. Courts use an “entirety test” to decide what is the relevant totality or entirety of a physical thing that satisfies a particular notion. They consider factors that might suggest the item under consideration **is** the relevant asset, such as when it:
 - is physically distinct from a wider asset of which the item might be a part;
 - is functionally complete (to some degree); or
 - varies the function of another item.
12. And the courts consider factors that may suggest the item under consideration **is not** the relevant asset, such as when it:
 - has a physical connection with other items;
 - is part of an integrated system; or
 - is a necessary part to complete something else.

13. The relationship between these factors is shown in the following diagram.

Figure 2 | Hoahoa 2: Determining whether something is an item of property



(This diagram is from IS 25/03: *Income tax – identifying the relevant item of property for depreciation purposes*)

14. The tests for identifying the object of repairs and maintenance work and what is an item of property for the depreciation rules, are generally the same. This means, in most cases, the same asset is relevant for both (with an exception where the object of the work is not entirely owned by a taxpayer, as explained in IS 26/01).
15. For buildings such as rental properties, an important factor is whether the work is carried out on the building itself or on a separate item or chattel that does not form part of the building. Further guidance on this matter can be found in the Commissioner’s publications referred to at the end of this fact sheet (see IS 10/01, QB 20/01 and IS 22/04).

Step 2 – consider the extent and nature of work done

16. Whether repairs and maintenance expenses can be deducted depends on what work was actually done. You cannot claim a deduction for a hypothetical or notional repair cost that might have been incurred if the work been done differently.

17. When looking at the extent and nature of the work done, consider:
 - Did the extent of the work involve the reconstruction, replacement or renewal of the asset, either entirely or substantially? If yes, the expense is capital expenditure.
 - If not, did the nature of the work go beyond fixing normal wear and tear (ie, repairs) and change the asset's character? If yes, the expense is also capital expenditure.
18. Changes to an asset's value, earning capacity, useful life, function or operating capacity—whether intended or not—cannot by themselves make the work capital. The cost of the work may also be relevant.

Work that is part of one overall capital project

19. If the work is part of one overall capital project, the cost of that work takes on the overall project's capital nature. But, if the work is standalone and not part of a larger plan, it is assessed on its own. Costs incurred at the same time can be treated separately, depending on whether they are part of a larger project or not.

Work that is essential to make a recently acquired capital asset suitable for its intended long-term use

20. If the expense is for work carried out on a recently acquired capital asset that is essential to make it suitable for your intended long-term use, the cost is part of the asset's acquisition cost and cannot be deducted. But, if the asset is used to earn income before the work is completed, any extra repairs caused by this use may be deductible. For more information, see: *QB 25/17 Income tax: Can I claim a deduction for expenses I incur on repairing a recently acquired capital asset?*

The cause of the work is relevant but does not affect the outcome

21. Whether the work is caused by a natural disaster or something else, it is the nature and extent of the work done that matters, not the cause.

Inherent defects and leaky buildings

22. The guidance in IS 26/01 includes a section and examples about inherent defects. These are faults in an asset's design, construction or manufacture that can be a cause of work being carried out. An example is a leaky building.

23. If an asset is damaged by one of these defects, the cause of the work and the removal of the defect are relevant but are not deciding factors by themselves. For leaky buildings, the problem usually requires removing the defect, which often involves major work on important parts of the building. This kind of work is likely to go beyond a repair and change the character of the building from its original, defective state. Unless the nature and extent of the work is limited, the expenses are likely to be capital expenditure and not deductible.

Additional Guidance

- IS0025: Dairy Farming – Deductibility of certain expenditure *Tax Information Bulletin* Vol 12, No 2 (February 2000): 10. Available at:
 - taxtechnical.ird.govt.nz/tib/volume-12---2000/tib-vol12-no2
 - taxtechnical.ird.govt.nz/interpretation-statements/is0025-dairy-farming-deductibility-of-certain-expenditure
- IS 10/01: Residential rental properties – depreciation of items of depreciable property, *Tax Information Bulletin* Vol 22, No 4 (May 2010): 16. Available at:
 - taxtechnical.ird.govt.nz/tib/volume-22---2010/tib-vol22-no4
 - taxtechnical.ird.govt.nz/interpretation-statements/is1001-residential-rental-properties-depreciation-of-items-of-depreciable-property
- QB 20/01: Can owners of existing residential rental properties claim deductions for costs incurred to meet Healthy Homes standards? *Tax Information Bulletin* Vol 32, No 7 (August 2020): 126. Available at:
 - taxtechnical.ird.govt.nz/tib/volume-32---2020/tib-vol32-no7
 - taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2020/qb-20-01
- IS 22/04: Claiming depreciation on buildings *Tax Information Bulletin* Vol 34, No 8 (September 2022): 9. Available at:
 - taxtechnical.ird.govt.nz/tib/volume-34---2022/tib-vol-34-no8
 - taxtechnical.ird.govt.nz/interpretation-statements/2022/is-22-04
- IS 25/03: Income tax – identifying the relevant item of property for depreciation purposes *Tax Information Bulletin* Vol 37, No 2 (March 2025): 8. Available at:
 - taxtechnical.ird.govt.nz/tib/volume-37---2025/tib-vol37-no2
 - taxtechnical.ird.govt.nz/interpretation-statements/2025/is-25-03

- QB 25/17: Income tax: Can I claim a deduction for expenses I incur on repairing a recently acquired capital asset? *Tax Information Bulletin* Vol 37, No 7 (August 2025): 61. Available at:
 - taxtechnical.ird.govt.nz/tib/volume-37---2025/tib-vol37-no7
 - taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2025/qb-25-17

About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views, a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further [Status of Commissioner's advice](#) (Commissioner's statement, Inland Revenue, December 2012).