



Repairs vs Improvements

Distinguishing between a repair (deductible immediately) and an improvement (capitalized and depreciated) is a critical tax decision. While the IRS default rule requires capitalizing any expense that is a Betterment, Restoration, or Adaptation (BRA), specific Safe Harbors and the Unit of Property (UoP) repair analysis allow you to avoid these unfriendly rules. Having a roadmap helps you turn what might be a 27.5-year depreciation schedule into an immediate tax deduction.

Key Rules

The \$2,500 Rule Is Your Friend

Under the de minimis safe harbor, items or invoice line items costing \$2,500 or less can generally be expensed immediately. Ask vendors to itemize labor and materials to help stay under this threshold.

Routine Maintenance Is Deductible

You can immediately expense activities you reasonably expect to perform more than once during the property's class life (e.g., painting, inspecting, or replacing wear-and-tear parts like standard water heaters).

Small Buildings Get Extra Flexibility

If your building's unadjusted basis is under \$1 million, the Small Taxpayer Safe Harbor allows you to deduct annual repairs/improvements up to the lesser of \$10,000 or 2% of the building's original cost.

Top FAQs

Is replacing an HVAC system a repair or improvement?

Usually an improvement unless a safe harbor applies or is considered a Qualified Improvement Property.

Is a bathroom renovation expensed or capitalized?

Generally a bathroom renovation is capitalized and depreciated over time. However, if you have a rental with an average guest stay of 30 days or less (non-residential or transient), it might be eligible for bonus depreciation or Section 179 expensing under Qualified Improvement Property.

Is a water heater a repair?

If under \$2,500, de minimis may apply; otherwise typically immediately deducted when routine maintenance criteria are met (you expect to replace a water heater more than once during the building's components 27.5-year life). Rarely will it be depreciated over time (but many tax pro's mess this up).

Repairs and improvements aren't just compliance rules — they're planning opportunities. Using the safe harbors and UoP repair analysis (see our one pager) intentionally turns routine property spending into immediate tax benefit rather than long-term depreciation.



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