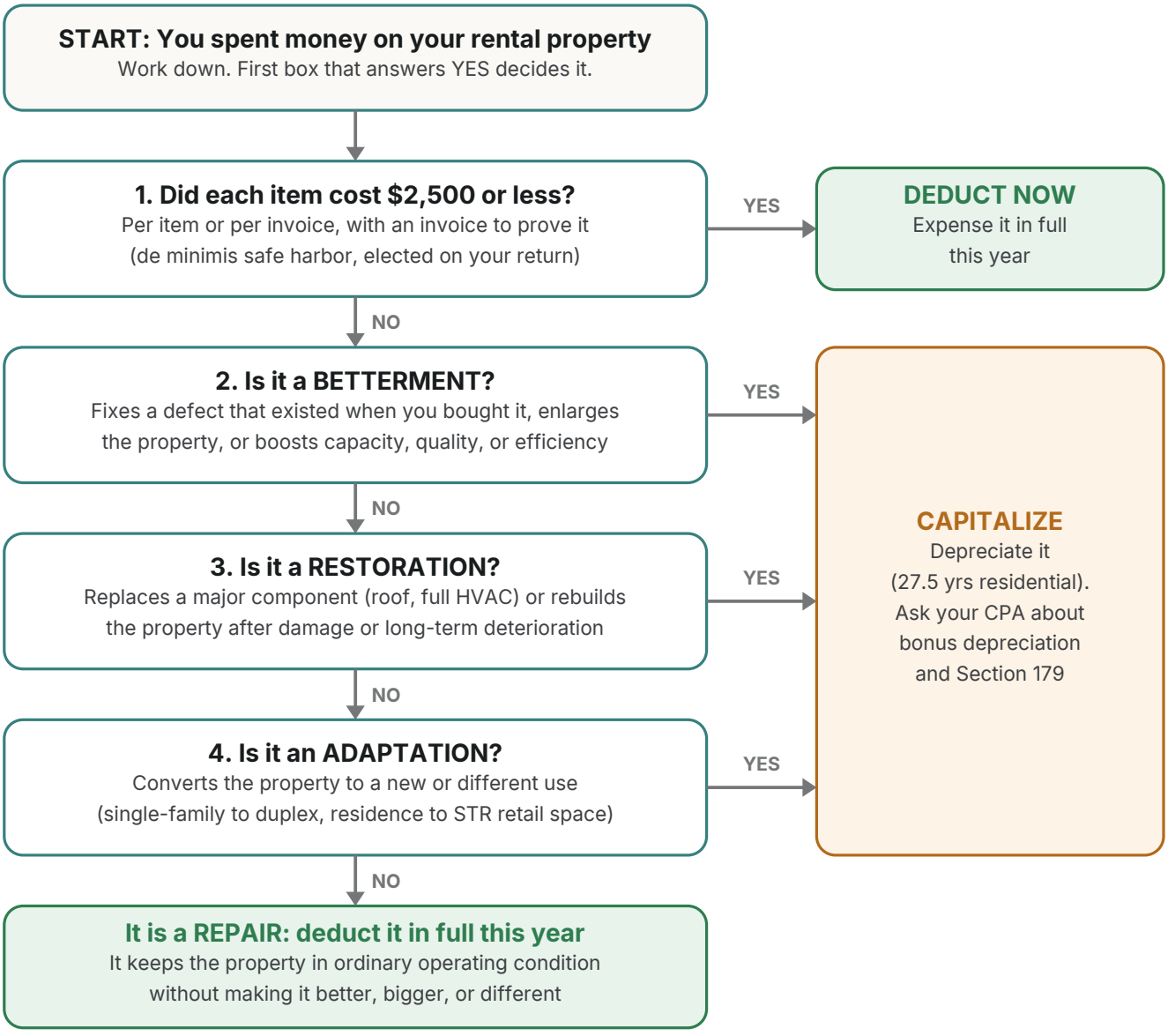
Capital vs. Repair: The Decision Tree

Classify any rental property expense correctly for the IRS in under a minute. Repairs are deducted this year; improvements are capitalized and depreciated.



Questions 2 through 4 are the IRS "BRA" test (Betterment, Restoration, Adaptation) from the tangible property regulations. When a job mixes both (a repair discovered during an improvement), ask the contractor to itemize the invoice.

The two other safe harbors worth knowing

Safe harbor	What it lets you do	The fine print
Small taxpayer (SHST)	Deduct ALL repairs, maintenance, and improvements on a building for the year, even capital-flavored ones.	Total for the year must not exceed the lesser of $10,000 or 2% of the building's unadjusted basis; building basis $1M or less; average gross receipts $10M or less. Elected per building, per year.
Routine maintenance	Deduct recurring work you expect to do more than once every 10 years to keep the property in operating condition.	Think HVAC servicing, repainting, resealing. Does not apply to betterments or to work that restores a major component.

Common calls, classified

Usually a REPAIR (deduct now)	Usually an IMPROVEMENT (capitalize)
Fixing a leaky faucet or running toilet	Full kitchen or bathroom remodel
Patching a section of roof after a storm	Full roof replacement
Repainting between tenants	Adding a bedroom, deck, or garage
Replacing a broken window pane	Replacing all windows with upgraded units
Servicing the furnace, replacing a capacitor	Replacing the entire HVAC system
Rescreening a porch, fixing a gate	New fence around the property
Drain snaking and minor plumbing fixes	Repiping the building

Context can flip any of these: the same work can be a repair on one property and part of a capitalized improvement plan on another. This tree gets the bookkeeping right during the year; your CPA makes the final call on the return.

Tired of guessing at tax time?

We classify repairs and improvements correctly every month, so your CPA gets a clean list in January. Book a free 20-minute call:

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realcentsorganized.com/book-a-call