

Mind the Surface - the tax efficiency of repair costs

By Julie Eller on September 5, 2013 in Tax



The recent case of *Pratt (G Pratt and Sons v HMRC (TC 1269))*, questioned whether expenses, particularly those on replacement or re-surfacing, are revenue or capital in nature. This question is possibly one of the longest running arguments in the UK tax system.

It is therefore no surprise that this repair question has recently been tested again at Tribunal level. The case was *Cairnsmill Caravan Park v HMRC TC02580* concerning the replacement of the grass surface of the caravan park by hard-core materials. It was agreed by the First-tier Tribunal (FTT) that the cost of the hard-core surface was correctly treated as revenue expenditure. The points from the decision by the FTT are as follows:

The size of the entirety

[9] “The first aspect to be determined is identifying the entirety of the subject which has been repaired. In our view the entirety is the whole caravan park.”

[21] “On that view the area of the park which has been resurfaced is only a very small part of the entirety. It extends to three acres out of a total area of 51 acres.”

Durability and maintenance costs

[23] “In the correspondence between HMRC and the taxpayers’ accountants, the former suggested that the hard-core surface is more durable than grass and consequently is thus an improvement. That inference may have a superficial attraction. However, as the evidence emerged, other considerations arose. Durability seems questionable as the

original grass surface had been in existence for about 50 years...Maintenance costs of the new hard-core surface are, if anything, marginally higher. The hard-core has less aesthetic appeal: it is like any hard-surfaced car park. It is not suitable as a recreational area for children. Securing a typical camping awning on a hard surface is problematical inasmuch as fixing pins cannot easily be located. This, in fact, has generated customer complaints."

Evidence showed the original surface as more durable. This highlights the importance of really understanding what work has been undertaken, what the values were before and after the work and the necessity to produce evidence to support the decision as to its treatment.

Evidence of no enhancements

[24] "We do not consider that that part of the Park, ie the area allocated to touring caravans, has been enhanced. Also, in the broader context of the Park as an entirety we do not consider that it gives rise to an improvement. In the valuations produced before and after the works were undertaken, there is no suggestion of a resulting enhanced value."

The taxpayer must consider the ability to measure the enhancement element, and also be able to produce evidence to quantify the lack of improvement.

The FTT decision on re-surfacing

[26] "For all these reasons we consider that the expenditure of £89,210 on re-surfacing with hard-core is a revenue expense, deductible for tax purposes. The Appeal is accordingly allowed."

This decision could have significant impacts on not just caravan parks but farming operations which have a variety of surfaces requiring ongoing repair programmes.

It is enlightening to note that the FTT considered that the evidence showed that maintenance costs of the new hard-core are higher than the previous grass surface. It might be questionable as to why this hard-core was put down, as it did not look as good and it is now difficult to secure camping awnings; thus the park's value did not increase.

Practical points

The practical point has to be to review all farm repairs and improvements, eg re-surfacing. The case of *Pratt* is an example of establishing the tax efficiency of repair costs. Despite the atrocious weather, some farming profits have improved and there is better cashflow available to repair surfaces, and to ensure they comply with health and safety etc, and the tax efficiency relating to such work needs to be considered and planned. Ironically, it is the appalling weather that has currently driven a large amount of rural repairs, and re-surfacing will be planned in the years ahead. Maximising the tax relief will help with funding.

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