BIM46900 – Specific deductions: repairs & renewals: contents

This chapter contains general guidance on what is a repair. This guidance is for trades, property businesses and furnished holiday lettings.

The law that underlies this chapter is discussed separately at BIM35XXX onwards. The guidance in this chapter includes links to the appropriate discussions of the underlying law.

There is an overview at BIM46901 which is intended to provide a guide to the issues that you need to consider.

This is an area where it is important to establish the facts. In particular it is important to establish what is the asset? Is it the item that has been worked on or is that only a part of a larger asset?

Care needs to be taken as people can use the same terms for different types of work. For example some people use ’renewal' to mean simply repairing an asset that has become rundown and others may mean that the asset has been replaced.

There are special rules for lettings of furnished residential properties. Guidance on these can be found in the Property Income manual at PIM3200 onwards.

This chapter contains the following:

BIM46901 – Specific deductions: repairs & renewals: Overview

This section is intended to take you through the issues that you need to consider when looking at whether the cost of 'repairs' is allowable expenditure.

The general position is that the cost of :

- a repair is normally allowable expenditure, but
- replacing the asset or of making a significant improvement to the asset as a whole (the 'entirety') will be capital expenditure and not allowable as a deduction.

This guidance looks at the questions of what is the asset as opposed to part of an asset; and what is an improvement or alteration?

Timing – Relief is given when the cost of the repair is deducted in the profit & loss account in line with accountancy principles (UK GAAP). Further guidance on timing can be found at BIM46905.

Replacing an asset – Replacing a part is a repair to the larger asset, replacing the whole asset is not a repair, and is not an allowable deduction for tax purposes because it is capital expenditure. For guidance on what is the asset and whether you are repairing or replacing an asset see BIM46910.

Integral features – Replacing certain 'integral features' of a building or structure is treated as capital expenditure. For guidance on what are integral features see BIM46945.

Improvements – The cost of improvements to an asset are not allowable expenses – for guidance on what is an improvement see BIM46915.

Alterations – the cost of altering an asset so it does something different are not allowable. For guidance on what is an alteration see BIM46915.

New materials – repairs are often carried out using new materials. The use of new materials does not mean that the repair is not allowable. For guidance on cases involving the use of new materials, see BIM46920.

New technology – the introduction of new technology may mean that the new parts are better than or last longer than the old, but the question to ask is whether the asset as a whole has been improved. If it does the same job as it did before then it may well be simply a repair. For guidance on this point see BIM46925.

Change of ownership – although an asset has been recently acquired the cost of repairs will usually remain allowable expenditure. For example the cost of routine repairs and maintenance remain allowable expenditure. If an asset is acquired in a run down condition then the cost of putting the asset into a useable condition is capital expenditure and not an allowable deduction. For further guidance on this point see BIM46935.

Capital allowances – The capital allowances legislation contains deeming provisions that treats significant amounts of work on features in a building, including the electrical or air conditioning system as capital expenditure which is not allowed as a revenue deduction. For further guidance on this point and other issues involving capital allowances see BIM46945 and CA 22340.
The capital allowances legislation also provides an entitlement to allowances in certain circumstances in respect of expenditure incurred on plant or machinery that is or becomes a fixture. For further guidance see CA26025 onwards.

Character of the asset – As a final check, you need to consider the results of the work carried out. If as a result of the work the asset can simply be used to do the same job as before then it is likely to be a repair and therefore allowable expenditure. If it can do more or can do something different then the character of the asset has changed and the work is likely not to be an allowable expense. For further guidance on this point see BIM46950.

BIM46905 – Specific deductions: repairs & renewals: Role of Accountancy

As it is a tax question whether expenditure is capital or revenue, accountancy has no role in deciding whether or not an expense is allowable.

Where accountancy is important is that the accounts, prepared in accordance with GAAP, determine **when** relief is given for tax purposes.

Spreading relief
Sometimes all the cost of repairs will not be charged to the profit and loss account when it is incurred; it may be 'capitalised' with relief being spread over a number of years.

The fact that this is referred to as 'capitalised' does not make it capital expenditure for tax purposes. If it is allowable expenditure then the fact that relief is deferred does not make any difference. We simply follow the accounts and give relief in the year in which the cost of repairs is charged to the profit and loss account.

Provisions
We accept that a provision for future repairs correctly made in accordance with UK GAAP (currently FRS12) is an allowable expense except where there are specific tax rules to the contrary. For example provisions for capital expenditure are not tax deductible.

BIM46910 – Specific deductions: repairs & renewals: what is a repair: the ‘entirety’

It is important to identify what is the asset on which work has been carried out. This is because the cost of:

- repairing a worn or dilapidated asset is normally an allowable expense
- replacing the whole or the 'entirety' of an asset is not a repair it is capital expenditure and not an allowable expense.

What forms the asset or 'entirety' is a question of fact. You need to decide whether the asset is a separate asset or is part of a bigger asset.

The basic starting point is to establish the facts about the specific asset you are looking at and then simply to ask the question “*does this look like a separate asset*?”

Is it something that stands apart from other assets, is it freestanding or is it something that is removable?

This is a question of fact and degree; there are no 'tests' that can be applied.

With buildings and structures, the question is whether the item replaced appears to be free-standing asset. The fact that it is connected to another structure, for example by a flue, does not make it part of that larger asset.

Another question is whether something has become part of something else. A common example is whether the asset that has been replaced is simply a part of a building. If it is then it is a repair of the building not a replacement of an asset.

If something is 'a fixture' then it has become part of the building and not an entirety in its own right. Except where an 'integral feature' is being replaced (see BIM46945) replacing a fixture is a repair to the building.

Examples of fixtures include a boiler or water filled radiator installed in a residential property as part of a space or water heating system.

As is shown by the name, a fixture has to be attached to the building. However simply being attached does not make something a fixture. For guidance on what is a fixture, see the Capital Allowances Manual at CAM26025. This guidance also looks at where the capital allowances legislation provides an entitlement to allowances in certain circumstances in respect of expenditure incurred on plant or machinery that is or becomes a fixture.

The question to ask is whether the object is intended to be permanently attached and to make a lasting improvement to the property, in which case it is a fixture, and so part of the building and not an entirety.

If the object is only temporarily attached, such as a fridge freezer plugged into a wall socket in a kitchen, and the attachment is no more than is necessary for the object to be used and enjoyed, then it is not a fixture and remains a separate asset.

For examples of how the idea of the entirety applies in practice see BIM46911.

For more detailed guidance on the entirety issue see BIMXXXX

Sometimes in cases where the whole asset has not been replaced, if a large amount of work is carried out, it is worth considering whether the 'character of the asset' has changed, see BIM46950.

BIM46911 – Specific deductions: repairs & renewals: what is a repair: the ‘entirety’: Examples

The following are examples of how the concept of 'entirety' applies in practice.

Remember it is important to establish the facts of the particular case.

Example: Replacing the entirety:
Fred has a garage in which he stores his taxi. The garage is run down and needs major work. If Fred decides not to spend money on repairing the existing garage and has it knocked down and a new garage built, then that is not a repair, it is a replacement.

It does not matter whether the taxpayer chose to replace the asset, or was forced to, for instance because the building burnt down. The cost is capital expenditure and the whole cost is not an allowable expense.

The fact that replacing the asset is the cheapest and most effective option does not make the expenditure allowable, it remains capital expenditure.

Example: What is the asset – buildings?
Peter runs a farm and has diversified so that he has six chalets that are used in a furnished holiday lettings business.

One of the chalets is damaged beyond repair and Peter replaces it with a new chalet of the same model. Most of the cost is covered by insurance, so Peter only has to spend £2500.

The chalet is an identifiable asset in its own right. Peter has replaced an asset and so the £2500 is not an allowable expense.

Example: Replacing the whole?
For many years, Peter has only carried out limited repairs to the drive from the road to his farmyard.

In the spring, the Dairy Company tell him that the drive has deteriorated to the state that unless it is repaired, their tankers will be unable to call at his farm.

Peter has the drive repaired. The tarmac was removed and the sub-surface repaired. The drive was then re-surfaced and new kerbing added as necessary to bring the drive up to modern standards. As a result of the work, the drive was brought back to standard, there was no improvement involved.

The drive is an asset in its own right; however it has not been replaced, merely surfaced.

This is based on a case heard by the First Tier Tribunal where the Tribunal also emphasised that the drive had not changed as a result of the work, notably it did not allow larger milk tankers to be used.

Example: Refitting a kitchen:
Sophia owns a number of residential properties that she lets. The properties are not furnished lettings.

The boiler in one property needs replacing. As the new boiler has to be located in a different position, Sophia decides to modernise the kitchen as a whole.

All the existing base units, wall units and sink etc. are stripped out and replaced, as is the fitted cooker and hob. New units of an equivalent quality are installed but in a different layout to allow for the re-location of the boiler, finally the kitchen is re-plastered and re-tiled.

The entirety is the house, not the fitted kitchen. The new kitchen is slightly different but it does the same job as before. Sophia has simply replaced the old kitchen with a modern equivalent. This is a repair and allowable expenditure.

Shortly afterwards, the fridge freezer breaks down and has to be replaced.

This is not part of the building but is an asset in its own right. Sophia has not repaired an asset; she had incurred capital expenditure on a new asset. As the fridge freezer is used in a dwelling house it is not qualifying expenditure for capital allowances purposes.

BIM46915 – Specific deductions: repairs & renewals: what is a repair: improvements

The position is that if the taxpayer:

- restores the asset to what it originally had been, then that is a repair and would normally be an allowable expense
- alters or improves the asset then it is not a repair and is not an allowable expense.

If, instead of simply repairing the asset, the taxpayer has the asset altered, improved or upgraded, then all the cost of the work is not an allowable deduction for tax purposes. It is capital expenditure.

Whether something has been repaired or improved is a question of fact. So that you can decide whether or not the costs are allowable, you have to look at the nature and extent of the work carried out.

Care needs to be taken where a programme of works has been carried out as some works may simply be repairs, others are alterations or improvements.

With changes in regulations or technology it may not be practical or possible to carry out a repair using the same materials or equipment as originally used. For guidance on whether using modern materials means that something is a repair or improvement see BIM46915.

If the work amounts to an alteration or improvement then there is:

- no revenue deduction for any part of the expenditure. This includes things like redecoration after the main work has been done (redecoration would ordinarily be a revenue expense)
- no revenue deduction for any notional expenditure for what it would have cost to simply repair the asset, see BIM46930.

You also need to consider whether the work is on integral features, see BIM46945.

In borderline cases it is worth considering whether the 'character of the asset' has changed, see BIM46950.

Example

A Ltd trades from premises that consist of a showroom and warehouse. They decide to modernise their premises. They completely renew the roof; refurbish the staff kitchen; they extend the showroom by demolishing an interior wall and building a new one and installing a new floor and false ceiling to modernise the extended showroom area.

The new roof simply returns the roof to original condition. It is neither an alteration nor improvement; it is simply a repair of the building. In the same way, the refurbishment of the staff kitchen is simply a repair of the building. These are allowable expenses.

The work carried out on the storeroom/showroom has resulted in a larger showroom to a higher standard. This is an alteration and improvement. This is not an allowable expense.

Example
Rosemary runs a property business. One of the houses needs repairs to the roof. Rosemary takes the opportunity to convert the attic into an additional bedroom.

Rosemary has chosen not to simply repair the property; she has altered the property by converting unusable space into another room. The whole of the cost is disallowable.

For further information on these issues see BIMXXXX onwards

BIM46920 – Specific deductions: repairs & renewals: what is a repair: Different materials

Technology and building methods change over time. When the time comes for an asset to be repaired, the taxpayer may find that they have to use different materials, indeed they may be legally required to do so.

Care needs to be taken as the use of modern materials may give an apparent element of improvement because of the greater durability, superior qualities and so forth of the new material. The reality may be that the work simply means the asset is in a fit state to be used as before; it does not do a different job or a better job.

The position is that the work will be:

- a repair and not an improvement if after the work is carried out, the asset can just do the same job as before
- disallowable as an improvement if more can be done with the asset, or the asset can be used to do something that it could not do before.

In borderline cases it is worth considering whether the 'character of the asset' has changed, see BIM46950.

Example:
Jeff owns a warehouse. The wooden beams supporting the first floor need replacing. Jeff's architect used steel girders rather than wooden beams. Whether Jeff has repaired or improved the property is a question of fact and degree.

If Jeff can use the first floor as he did before and the floor can support more or less the same weight as before, then all Jeff has done is repair the building using modern materials. It is an allowable expense.

If Jeff can now use fork lift trucks or store more because the floor is stronger then it is an improvement and not an allowable expense.

It should be noted that the reverse is not the case. Using the original materials to repair the asset remains a repair even if the industry norm today would be to use cheaper materials that are, for example, less hard wearing.

Example:
Joyce owns a Hotel. Part of the building dates to the sixteenth century and the exterior façade is a listed building.

Joyce could use modern materials to repair some of the interior, but chooses to use traditional materials as far as possible. Whilst the work is considerably more expensive than it would have been using modern materials, Joyce sees a commercial advantage in maintaining the traditional look and style.

The work simply restores the property. There is no alteration or improvement.
It is simply a repaid and allowable expenditure.

BIM46925 – Specific deductions: repairs & renewals: what is a repair: Changing technology

Technology changes over time. When the time comes for an asset to be repaired, the taxpayer may find that they have to use new technology, indeed they may be legally required to do so.

The position is that the work will be:

- a repair and not an improvement if after the work is carried out, the asset can just do the same job as before
- disallowable as an improvement if more can be done with the asset, or the asset can be used to do something that it could not do before.

When the work is done can be important in deciding whether changes in technology have led to an improvement.

As technology changes over time, something that would be accepted as an improvement in year one may by year five be simply a repair for tax purposes. This is because that technology is no longer seen as an improvement and is simply what is used for the job, it has become the industry standard for that type of work. Using that technology does not change the character of the building.

One example of this is double glazing. At one time, replacing singled glazed windows with double glazing was an improvement. Over time, double glazing became the industry norm. This meant that replacing single glazing with double glazing ceased to be an improvement, and capital expenditure, and became allowable expenditure for tax purposes as it was simply replacing like with available like.

In borderline cases it is worth considering whether the 'character of the asset' has changed, see BIM46950.

Examples:
Tony has the hot water system in his factory replaced. He cannot replace it with an identical system as it was designed using imperial measures. He uses piping and storage tanks of the closest available metric size. This results in a slightly increased capacity.

In this case it is not an improvement. The trivial increase in performance or capacity arises solely from the replacement of old materials with newer but broadly equivalent materials.

Had he replaced the cold water system, then Tony would need to consider the rules on integral features, see BIM46945.

Example:

George runs the family business from premises built in the 1960s. The electrical system dates from when the premises were built and George decides to have the replaced. He installs a system of greater capacity to cope with additional electrical equipment that he is installing.

George has not simply replaced his outmoded system with a modern system. This is an improvement and is capital expenditure.

An electrical system of a building is an integral feature for capital allowances purposes. As a result George may be able to claim capital allowances at the lower rate see CA22310 onwards.

Example:
Helena has a property business. She is advised that the boiler in one property needs to be replaced.

Helena is told that she cannot simply replace the boiler with one of the same type because since 1st April 2007 it has been a legal requirement (in England and Wales) that all gas boilers installed must be a condensing model. In addition the old boiler was rated in Imperial units and boilers are now measured in the equivalent metric unit.

Helena chooses to replace the boiler with a condensing boiler that is the closest equivalent in capability.

The new boiler is smaller and has to be installed on a different wall, so that it can condense outside. Helena takes the opportunity to install additional kitchen units as tenants have commented about the lack of storage space. Although the tank is slightly larger, the reality is that Helena has simply used the modern equivalent of the original tank. The result is that the cost of the boiler is still revenue expenditure. The cost of the additional kitchen units is an improvement and not an allowable expense.

For more detailed guidance on this point see BIMXXXXX.

BIM46930 – Specific deductions: repairs & renewals: Notional repairs

If the asset is altered or improved then it is capital expenditure, it is not allowable expenditure.

In some cases if the asset had not been altered or improved, then the business would still have had to have the asset repaired. The cost of these repairs would have been allowable. The business does not get relief for the repairs it would have had to pay for, the ’notional repairs'.

This is because the business did not have the asset repaired and the treatment for tax purposes follows what happened, not what might have happened. As the business chose to have the asset altered or improved, it is capital expenditure. It is not an allowable expense.

Example:
Kate recognises that she needs to have her office roof repaired. Rather than simply carrying out the repairs, she decides to have the roof space opened up and additional windows put in so she can use it as office space.

Kate cannot claim the cost of the roof repairs, as they did not take place. She chose instead to have additional work done. That was what actually happened. This is an improvement and is capital expenditure. Kate cannot claim the cost that she would have spent on repairs because she chose not to carry out those repairs.

For further information on the case law on notional repairs see BIM3XXXX.

BIM46935 – Specific deductions: repairs & renewals: what is a repair: effect of change of ownership

A repair, which restores a worn or dilapidated asset, is normally an allowable expense.

This section of the guidance looks at what happens when an asset is acquired second hand. It is quite likely that it may need to be repaired and that these repairs do not arise from use in the current business.

A summary of the position is:

- the fact the taxpayer had repairs carried out just after they acquired the asset does not, of itself, mean that the cost of the repair is disallowable
- the fact that the repairs were needed when the asset was acquired does not, of itself, mean that the cost of the repair is disallowable
- the cost of the repair will be a capital expense if it is effectively part of the cost of acquiring the asset.

Whether the cost of the repairs is part of the cost of the asset is a question of fact.

What makes a repair part of the cost of acquiring the asset?

Basically what was the condition of the asset? Was it in working order, or was it an asset that needed repairing to enable it to be used in the business.

Pointers to the expense being a repair and allowable as a deduction include:

- the repairs are part of the routine normal maintenance cycles, or
- the price paid was not affected by the condition of the asset, or
- the price was adjusted, but only to reflect where the asset was in the routine maintenance cycle
- the asset could be used in the longer term in the business without being repaired.

Pointers to the expense being part of the cost of acquiring the asset and not allowable as a deduction include:

- the asset could not be used in the business without being repaired, or
- the asset could only be used in the short term and its long term use was dependent upon the repairs being carried out, or
- the purchase price of the asset reflected the tact that the asset needed repairing to be useable.

For further information on the case law background see BIMXXXXX.

Examples

What does all this mean in practice?

- George buys a second hand machine. It does not work until he has had it repaired after which he brings it into use in the factory. This was not routine maintenance. This was part of the cost of the equipment and George cannot claim a deduction for the expenditure.

- Samuel buys a ship in poor condition. He paid a commercial price for the ship, based on its condition. He knows that he can use it on one trip before its certificate expires. The ship will then have to have extensive repairs before it can be brought back into use.

  Samuel cannot claim the cost of these repairs as they are effectively part of the cost of buying the asset. The fact that he could use the ship for a voyage does not change this. Samuel knows that he will have to take the ship out of use unless he has the repairs carried out.

- Samuel buys a second ship, which is also in poor condition. He paid a commercial price for the ship, but because of the demand for that type of ship, the condition is not reflected in the price he paid. Samuel can use the ship and the repairs are carried out several years later.

  Samuel can claim the cost of these repairs as an allowable expense.

- Kate buys an empty property for her property business. The price reflects the fact that thieves have stripped the house of copper fittings. Kate has new plumbing installed. In addition she decides the exterior needs re-painting.

  Kate cannot claim for the cost of the new plumbing and related plastering and decorating. The house could not be used until this work was done and the price reflected the condition. In effect, it was a cost of acquiring a house and putting it into a condition that it could be let.

  Kate can claim for the painting of the exterior. This is a job that has to be done every few years. It is normal maintenance work. Kate can claim this as an expense even though she has had it done just after she has acquired the asset.

BIM46940 – Specific deductions: repairs & renewals: what is a repair: Required by a lease

A taxpayer may lease a property. If as part of the lease, the tenant agrees to restore the property to a good state of repair, then the repairs are capital expenditure, see BIM35620 for more information on the case law background.

In this case, the taxpayer may be able to get relief for all or part of the expenditure under the premium legislation. See BIM46250 onwards.

BIM46945 – Specific deductions: repairs & renewals: assets on which capital allowances given

The replacement of a component part of an asset (part of an 'entirety') is a revenue repair provided that replacement merely maintains the asset in its original form. The fact that capital allowances have been given on the asset as a whole does not prevent a revenue deduction being made for a repair to that asset.

Integral Features

There are special rules for assets that are 'integral features'. The following are integral features:

- an electrical system (including a lighting system),
- a cold water system,
- a space or water heating system, a powered system of ventilation, air cooling or air purification, and any floor or ceiling comprised in such a system,
- a lift, an escalator or a moving walkway,
- external solar shading.

If the expenditure represents the whole, or more than 50% of the cost of replacing an integral feature, then the whole of the expenditure is to be treated as capital expenditure on the replacement of an integral feature for capital allowances purposes and not a repair.

This applies either where the cost is incurred all at once or where the cost is incurred within any period of 12 months.

For further guidance on this point see the capital allowances manual at CA22310.

For guidance on integral features see CA22320. An integral feature is replaced if the expenditure incurred on it is more than 50% of the cost of replacing it. For guidance on replacement of integral features see CA22340.

BIM46950 – Specific deductions: repairs & renewals: Character of the asset?

A useful test to apply, especially where a lot of work has been done, is to consider whether the '*character of the asset*' has changed as a result of the work?

Put simply, you need to ask whether it is the same object before and after the work?

If after the work it simply does the same job as before; then it is a pointer that the work is a repair.

Example:

Amy owns a Victorian building that has been divided into student flats.

The electrician recommends that the building needs re-wiring. Amy decides to take the opportunity and have the building modernised.

The whole house is rewired, the heating system is partially replaced; the kitchens in all flats are replaced, together with two of the bathrooms. Three windows are replaced and the property re-decorated inside and out.

As a result of the work, Amy still has a property divided into the same number of student flats, capable of providing the same standard of accommodation for the same number of students.

Looked at as a whole, the character of the asset has not changed as a result of the work. There may be small items of alterations, but the overall programme is simply a repair. As the property is a dwelling house, it does not qualify for capital allowances and so the integral features rules do not need to be considered.

For further guidance on the meaning of 'dwelling house' see the capital allowances manual CA11520.

Amy's property lies in an area that is attracting investment. Rather than refurbishing the property as student accommodation, Amy has the same work carried out to a higher standard and converts the building into flats suitable for long term letting to people in a high income bracket.

Looked at as a whole, the character of the asset has changed, from short let student accommodation to up-market long term lettings.

It is important to recognise that a considerable amount of work that can be carried out without changing the character of the asset.

Example:

For many years A Ltd has operated retail premises from a two-storey property in a historic town centre. A survey reveals that the property is in an extremely poor state of repair. The directors decide that the premises should be gutted and modernised. The work carried out as set out in the invoices includes:

- the roof was stripped off, all rotten roof timbers removed, the roof replaced in the same position and with the same outline so there is no additional space
- corrugated asbestos roofing installed in the sixties was replaced by tiles
- the first floor was stripped out and reinstalled supported on steel joists rather than timber
- on the ground floor, oak flooring was stripped out and replaced by a concrete floor that provided a flat, even surface
- the shop front was replaced
- the oak beam over the shop was replaced by a steel joist
- the oak pillar supporting the front corner of the building was replaced with a steel stanchion
- any visible steelwork was clad in salvaged oak to maintain the appearance of the property
- the electrical system was renewed.

The aim of the work is to maintain the appearance of the store. There is no change to the size of the sales area.

The question to ask is whether, looked at in the round, the work resulted in a restoration of what was there before, or did it create something new?

In this case, the property may have been 'gutted and modernised' but the *character of the asset* remained unchanged.

Looked at from the point of view of how the building was used; the work was simply a restoration to enable it to be used to do the job it had long been used for.

The position would have been different, had the work changed the character of the asset, for example if it had created a larger sales area.

The exception is the electrical system. An electrical system of a building or structure is an integral feature. As the whole system was replaced, this is treated under the integral features rules as capital expenditure qualifying for capital allowances at the special rate. For more information on the point, see the Capital Allowances Manual at CA22300 onwards.

BIM46990 – Specific deductions: repairs & renewals: Non statutory renewals basis

This guidance does not apply in relation to expenditure on replacing plant and machinery which is incurred:
(a) on or after 6 April 2013, for the purposes of income tax; and
(b) on or after 1 April 2013, for the purposes of corporation tax.

Before the introduction of plant and machinery capital allowances, the renewals allowance was extended to machinery and plant assets outside the narrow range to which the legislation on renewals applies. This was sometimes termed the non-statutory renewals basis and was an extra statutory concession.

Under the then legislation, the cost of such assets was capital expenditure and any relief was only due under the capital allowances plant and machinery code.

A claim to use the non-statutory renewals basis could be admitted provided that the taxpayer was aware of and accepted the restrictions on relief. The renewals basis worked if the conditions for its adoption were accepted. These were that:

- no capital allowances are due for the cost of the original asset; there may be a long gap between the expenditure on the original asset and the purchase of the replacement hence relief can be deferred for a long time
- there is no deduction for the original expenditure and it cannot be relieved in any other way
- the renewals basis is confined to plant or machinery; there are special rules for orchards, see BIM55275
- no relief is due for the cost of any improvement element on the renewal of an asset, and
- the old asset must be definitely discarded before renewals allowance on its replacement is due; the old asset cannot be kept as a reserve.

Renewals allowance was only due for the cost of the replacement asset when it was acquired. The deduction due was:
the cost of the new asset: note that the cost of the replacement can be more than the cost of the original but the claim must exclude any part of the cost which is attributable to additions or improvements; (BIM46904 has more about improvements),
less
the scrap value or realised price of the old asset which is replaced; this applies whether or not the cost of the new asset (excluding additions and improvements) exceeds the cost of the asset replaced.

Where the deductible cost of the first replacement is restricted because of improvements, a deduction can be given later for the full cost of replacing the improved asset (the first replacement). But there may be a further improvement restriction if the second replacement is an improvement on the first replacement; and so on for each replacement in turn.