

## CHAPTER 3

### ENHANCEMENT EXPENDITURE

#### 3.1 Introduction

In calculating a capital gain, we start with sale proceeds then deduct any "allowable expenditure".

"Allowable expenditure" will obviously include the cost of acquiring the asset in the first place. Remember if the expenditure was incurred before 31 March 1982, we deduct the 1982 value in place of cost. Any incidental costs of acquisition are also treated as allowable expenditure. This will include items such as agent's fees or broker's fees on purchase, any costs of establishing a 1982 value, and any stamp taxes.

[TCGA 1992, s.38](#)

Any expenditure which enhances the value of the asset is also deductible. Such enhancement expenditure must be "**reflected in the state or nature**" of the asset at the date of disposal. Finally, any costs incurred by the owner in **preserving, establishing or defending his title** to an asset, are also deductible. This will include, for example, any legal fees etc incurred in a boundary dispute with a neighbour over a piece of land.

[TCGA 1992, s.38\(1\)\(b\)](#)

#### 3.2 Enhancement expenditure

Enhancement expenditure is expenditure which increases the value of an asset and is reflected in the nature of the asset at the date of disposal. The most common type of enhancement expenditure is where a taxpayer incurs building costs in enhancing the value of a property. The allowable expenditure will be the original cost of acquiring the house plus any amount spent in improving or enhancing the value of the property.

##### Illustration 1

Rob buys a property in July 1986 for £30,000. In March 1992, Rob spends £10,000 in adding an extension to the property. He sells the property in March 2011 for £150,000. The expenditure incurred in March 1992 has enhanced the value of the property and is reflected in the nature of the asset at the date of sale. This enhancement expenditure is therefore deductible in calculating the capital gain.

	£
Sale proceeds	150,000
Less: original cost (July 1986)	(30,000)
Less: enhancement (March 1992)	<u>(10,000)</u>
Capital gain	<u>110,000</u>

### 3.3 Enhancement expenditure and March 1982 rebasing

If a taxpayer buys a house before 31 March 1982 and he incurs enhancement expenditure, also before 31 March 1982, when we come to value the asset at 31 March 1982 the enhancement expenditure is reflected within the 1982 value.

If the taxpayer incurs further enhancement expenditure after 31 March 1982, when the taxpayer sells the asset, he will have additional allowable expenditure - i.e. the post March 1982 enhancement expenditure.

#### Illustration 2

Julie purchased a property in October 1976 for £90,000. She added a conservatory in January 1980 at a cost of £15,000. In March 1988, she incurred further enhancement expenditure by adding a garage at a cost of £20,000. In March 1982 the house was valued at £130,000. Julie sells the property in March 2011 for £350,000.

	£
Proceeds	350,000
March 1982 value	(130,000)
Garage (March 1988)	<u>(20,000)</u>
Capital gain	<u>200,000</u>

The cost of adding the conservatory is reflected in the March 1982 value - so we do not deduct this as enhancement expenditure.

In March 1988, Julie incurred additional costs of £20,000 in adding a garage. Because this is allowable expenditure incurred after March 1982, we deduct the £20,000.

**Example 1**

Shelley bought a painting in January 1987 for £12,000. In May 1998 she had it restored and reframed at a cost of £3,000.

Shelley sold the painting at auction in October 2010 for £50,000. Auctioneers fees of 5% were charged on sale.

**Calculate Shelley's capital gain.**

**Example 2**

**Which of the following is not an allowable expense in computing a capital gain on the sale of an asset?**

- a) Costs of establishing title to the asset
- b) Costs of establishing a March 1982 value
- c) Costs of insuring the asset
- d) Stamp duty land tax costs incurred on acquisition

**Answer 1**

	£
Gross proceeds	50,000
Less: auctioneers fees (5%)	<u>(2,500)</u>
	47,500
Less: original cost	(12,000)
Less: enhancement	<u>(3,000)</u>
Capital gain	<u>32,500</u>

**Answer 2**

The answer is **C**

Insurance costs are not allowed.