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eBook

Capital Allowances for Furnished Holiday Lets

Unlock tax-free rental returns

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Welcome Message



Hello,

This eBook has been created to explain what Capital Allowances are and how they interact with Furnished Holiday Lets. We aim to bring together useful information and insights which, if implemented correctly, helps to deliver years of tax-free rental returns.

We appreciate that Capital Allowances are one of many value-added services to consider whilst focused on your core activities. In short, we appreciate that no commodity is more precious than time.

STax are a professional firm of Tax Advisors, Chartered Certified Accountants and Chartered Surveyors who specialise in this one area of tax. Over the best part of a decade, STax have become one of the largest independent firms in this area.

We have tried to cover the core areas you might need to activate this powerful driver for growth. If you think of any other questions you would like answered, please don't hesitate to ask.

The Team,

Stanley Tax Associates Ltd.

I. Introduction to Capital Allowances



1.1 Tax-free rental returns anyone?

Furnished Holiday Lets can potentially deliver several years' worth of tax-free income for property owners. If you let out a residential property as furnished short-let accommodation which adheres to the below criteria, then your property becomes eligible, and is indeed taxed as a Furnished Holiday Let. This provides access to a host of tax advantages, including the ability to claim Capital Allowances.

1.2 What are Furnished Holiday Lets?

A Furnished Holiday Let is a rental property classification that offers property owners a variety of tax advantages. These properties sit on the boundary between ordinary and commercially let properties, presenting unique opportunities to maximise earnings. Properties considered as Furnished Holiday Lets must adhere to certain criteria to be recognised under UK taxation. Some of these requirements include:

1. Properties must be based in the European Economic Area (EEA)
2. Available to rent for at least 210 days per year
3. Properties must be let for at least 105 days per year
4. Each let must not exceed 31 days

Furnished Holiday Lets tend to have a higher revenue/running cost investment compared to Buy-to-Let properties. However, unlike Buy-to-Lets, Furnished Holiday Lets are exempt (assuming non-company ownership) from restrictions on higher rate interest relief. This makes Furnished Holiday Lets ideal for securing profitable returns, especially if owners have the right property in the right location.

A correctly supported claim for Capital Allowances can mean that a Furnished Holiday Let will pay no tax on its rental profits for many years! In fact, the average Capital Allowances fixtures claim on a Furnished Holiday Let makes rental profits tax free for the first five years of operation.

I. Introduction to Capital Allowances



1.3 What are Capital Allowances & why are they relevant?

Capital Allowances are a form of tax relief given on eligible items of 'plant and machinery'. They reduce your taxable profit and therefore the amount of tax you pay. They are available on loose plant (e.g. furniture, white goods etc.) but also extends to the fixtures and integral features (electrics, plumbing, etc.) in commercial and some residential properties, Furnished Holiday Lets included. Whilst Capital Allowances are a non-contentious area of tax sat firmly on a statutory basis (i.e. claiming them is specifically allowed by legislation), they can still deliver substantial savings for investors in Furnished Holiday Lettings.

These allowances are generally distributed incrementally over several years. However, the allowances can also be accelerated for recent capital expenditure using the Annual Investment Allowance (AIA). The AIA is currently set at £1m per annum, meaning in most cases, all the tax relief can be claimed in the first year.

A proportion of the purchase price on a property is deemed to have been paid for the fixtures that were in place at the time of the purchase. You are perfectly entitled to claim Capital Allowances on these regardless of how long ago the purchase was. Unfortunately valuing them in a way HMRC will accept is not straightforward. A claim on these involves making an apportionment calculation.

All claims are in reference to what you spent i.e. the purchase price plus purchase costs and SDLT. The difficulty comes in because the purchase price will not necessarily bare any relation to sum of the value of the component parts. To quantify the value of the fixtures that can be claimed, STax needs to value the whole property and then calculate the ratio between the eligible and ineligible components. This ratio is then multiplied by the purchase consideration incurred to arrive at the claim value. This may sound like a lot of work but beyond opening the door (or asking the site management to) for our surveyor, we will do everything else.

Capital Allowances



1.4 So where are these tax-free rental returns?

The size of Capital Allowance claims vary depending on the quality and quantity of items present. For a Furnished Holiday Let, the average claim is approximately 25% of the purchase consideration. For example, a property which cost £500k could expect to find £125k in Capital Allowances. With the AIA at the current elevated level, this can create a massive reduction in your taxable profits or even trigger a tax rebate.

Imagine a property was purchased for £500k in 2018. This property has been used as a Furnished Holiday Let, yielding 5% taxable profit before allowances. A Capital Allowance survey was conducted and a claim for £125k in Capital Allowances was made. This results in the following taxable profits over time:

	2018	2019	2020	2021	2022	2023
Purchase consideration:	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000
Profit %	5%	5%	5%	5%	5%	5%
Profit:	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000
Capital Allowances (CA):	(£125,000)	0	0	0	0	0
Loss brought forward:	n/a	(£100,000)	(£75,000)	(£50,000)	(£25,000)	0
Taxable profit:	£100,000	£75,000	£50,000	£25,000	£0	£25,000
Tax payable:	£0	£0	£0	£0	£0	£5,000 (basic rate)

Introduction to Capital Allowances



1.5 How do I claim Capital Allowances on my Furnished Holiday Let?

Processing an effective Capital Allowance claim requires cross discipline knowledge of both surveying and tax. STax combines Tax Advisors, Chartered Certified Accountants and Chartered Surveyors to provide expert advice on this unique area of tax. Over best part of a decade, STax have become one of the largest independent firms in this area. This makes us perfectly positioned to help maximise any potential claim.

We only ever charge as a percentage of the benefits we deliver. No claim, no fee. For a free feasibility review and projection of how much may be available on your property, please contact the team at STax.

Work With Us ?



STax are a professional nationwide firm who offer many services; we have outlined just some advantages of working with us below.

Best advice

Capital Allowances are a unique form of tax relief which require specialist knowledge to be carried out effectively. At STax, we combine tax advisors, Accountants and Chartered Surveyors to provide expert advice and maximise our clients claims.

Years of experience

STax have been offering our services for many years, making us one of the leading advisors in the Capital Allowance sector. With a host of Furnished Holiday Lets and commercial properties under our belt, we are ideally placed to assist our clients.

Competitive Rates

We only charge as a percentage of the benefits we deliver to our clients. If we're unable to make a claim, we won't charge anything at all – no allowances, no charge.

Free Property Reviews

We offer free reviews to property owners who may be interested in claiming Capital Allowances and are intrigued to find out how much we may be able to find for them. We can offer our review with as little as an address. If you would like a free property review, then please get in touch.

3. Client FAQ's



Despite the unique nature of tax, some questions come up on a regular basis. We have listed a few of these questions and answers below.

Won't my Accountant be dealing with this already?

Due to the specialist cross discipline nature of the work (tax and surveying), no general practice accounting firms cover this area in any depth except for the very largest firms in the country (KPMG, PwC etc).

STax will work seamlessly with your Accountant during and after the process. At the end of the day, most of our work is referred to us by firms of Accountants. We are always happy to meet one more!

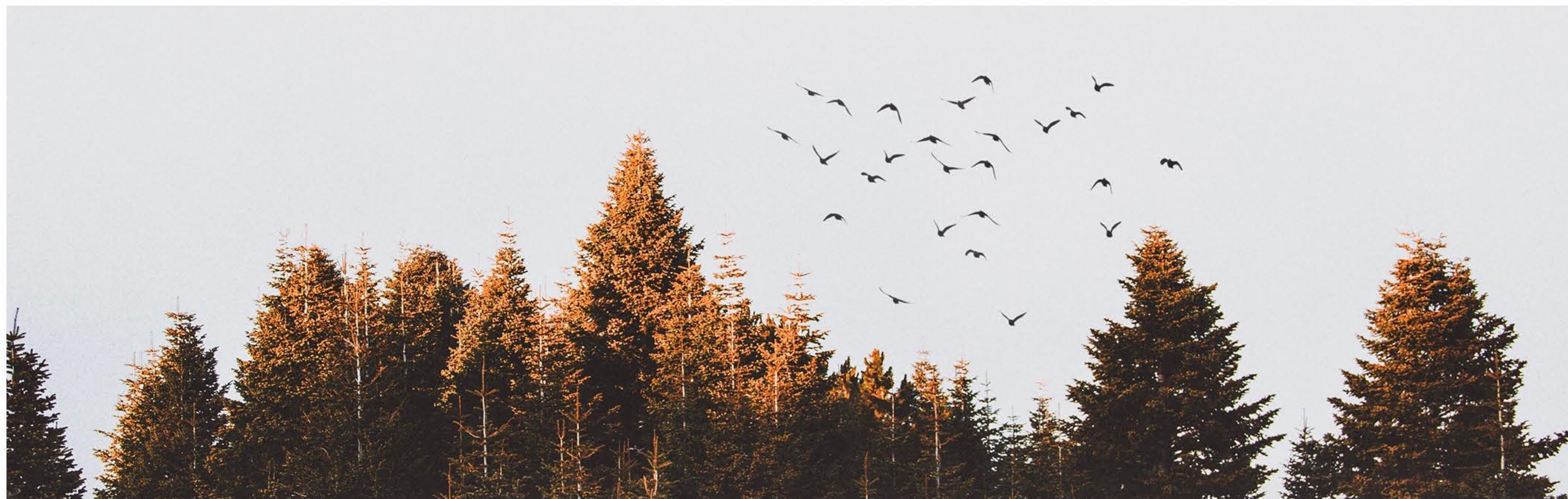
Is there a time limit to making a claim?

There is no statutory time limit for making a historic Capital Allowance claim. However, it is worth remembering that claims are made in reference to what the property originally cost and not the current value. If the purchase was a long time ago, these may be two very different figures.

Is this a form of tax avoidance?

No, whilst Capital Allowances on fixtures is a technical area with a plethora of legislation and case law to follow, it is categorically not a form of tax avoidance. Your right to claim this tax relief is specifically allowed by the Capital Allowances Act 2001 and we follow the guidance laid down by HMRC and the VOA (Valuation Office Agency - valuation arm of the Civil Service) to arrive at your claim figure.

4. Frequently Asked Questions



Will this increase my Capital Gains in the future?

No, claiming Capital Allowances on fixtures will not increase your Capital Gains tax bill on a property.

What if tax rules change in the future?

Capital Allowances are a statutory relief that is not only claimable on fixtures in Furnished Holiday Lets, but on all fixed plant and machinery used in all businesses here in the UK.

Changes to the whole system were looked at in 2018 by the Office of Tax Simplification. STax's MD Andrew Stanley was closely involved with this 9-month consultation. The outcome was that changes in this area were not a good idea and several refinements were proposed. Some of which we are pleased to say featured in the November 2018 budget.

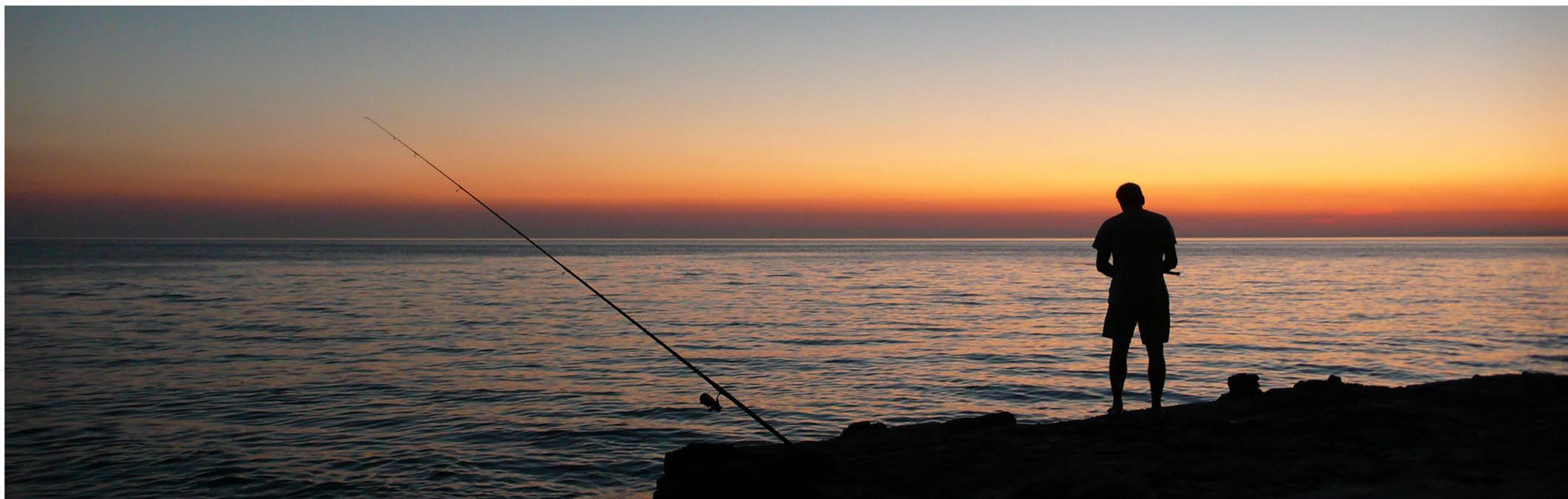
Given Capital Allowances are used on a myriad of long-range investments by industry, any changes (in the highly unlikely event they were to happen in the first place) would have to be phased over time with some form of transition period for relief left at the end of this period.

I am about to buy/sell a property, is there anything I need to do?

There were changes to legislation in 2012 and 2014 that occasionally affect purchases of Furnished Holiday Lets. This only applies if you are buying the property from somebody who could have claimed the relief i.e. another Furnished Holiday Let owner. If this is the case, the legislation is best addressed during the conveyance. To be safe, it is always good for us to speak to anyone who is looking at buying or selling as soon as possible so we can help them negotiate the best possible outcome.

Whilst advice is best given before exchange, lost situations can be repaired in certain circumstances and we may be able to claw back Capital Allowances.

5. About Us



STax are specialist real estate Tax Advisors, combining qualified Tax Advisors, Chartered Certified Accountants and Chartered RICS/MCIOB Surveyors. Over the best part of the last decade, STax has become one of the most respected national players in the Capital Allowances sector. Our team of 20 strong, spread across four offices are perfectly positioned to help investors in real estate the benefits of due Capital Allowances.

Whilst we are known for our technical excellence, it is our commercial astuteness that differentiates us from our peers. We have built our reputation on being able to achieve results where others have failed.

We work closely with owners of commercial properties, multiunit residential buildings and holiday lets to help them claim their full entitlement to tax relief, and therefore only pay the correct amount of tax.

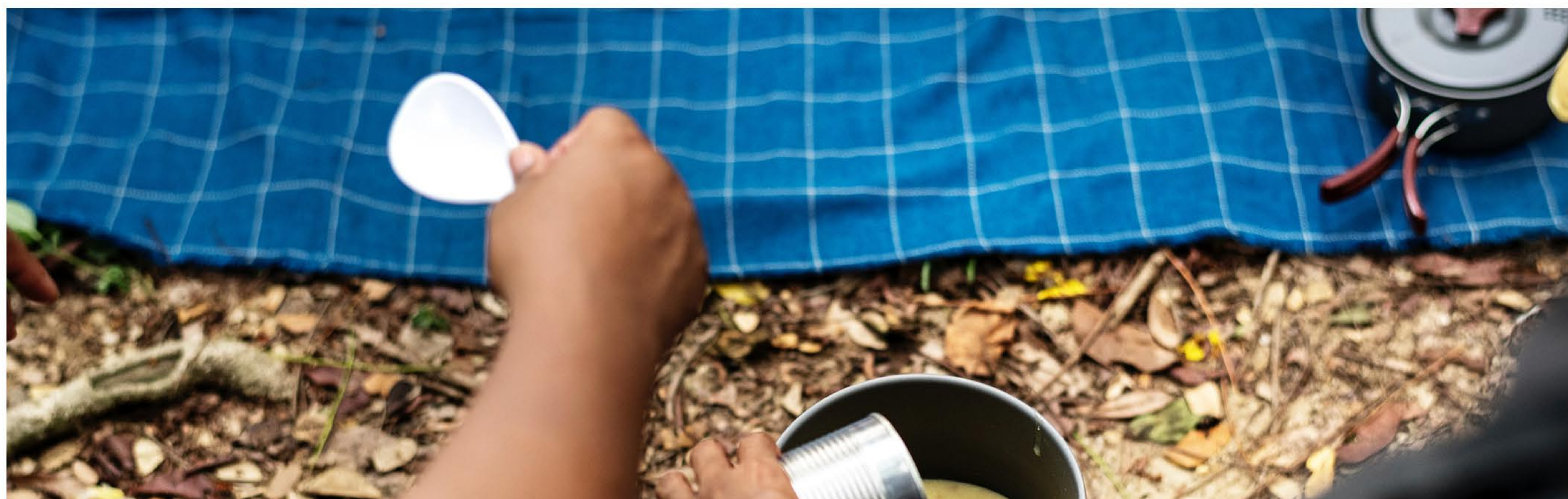
We would strongly advise that circumstances are looked at by us here at STax, before any decisions are made based on the availability of allowances as every taxpayer's situation is unique and what applies to one may not apply to another.

We are always happy to discuss what we do in as much detail as you would like.

Please do not hesitate to contact us if you wish to discuss this further.

We look forward to working with you.

Definition of Terms



Fixtures

Fixtures are items of plant and machinery that are attached to the structure of a building. This covers systems and items such as electrics, cold and hot water, heating, floor coverings, fire alarms etc.

Capital Allowances (fixtures)

Is a form of property tax relief that can be used on commercial properties, Furnished Holiday Lets and some residential properties e.g. House in Multiple Occupation (HMOs). Capital Allowances are calculated as a proportion on the money you spent (not on what the property is worth now), either on the purchase consideration (purchase price + SDLT + purchase costs) and/or on the money you have spent improving the property since purchase.

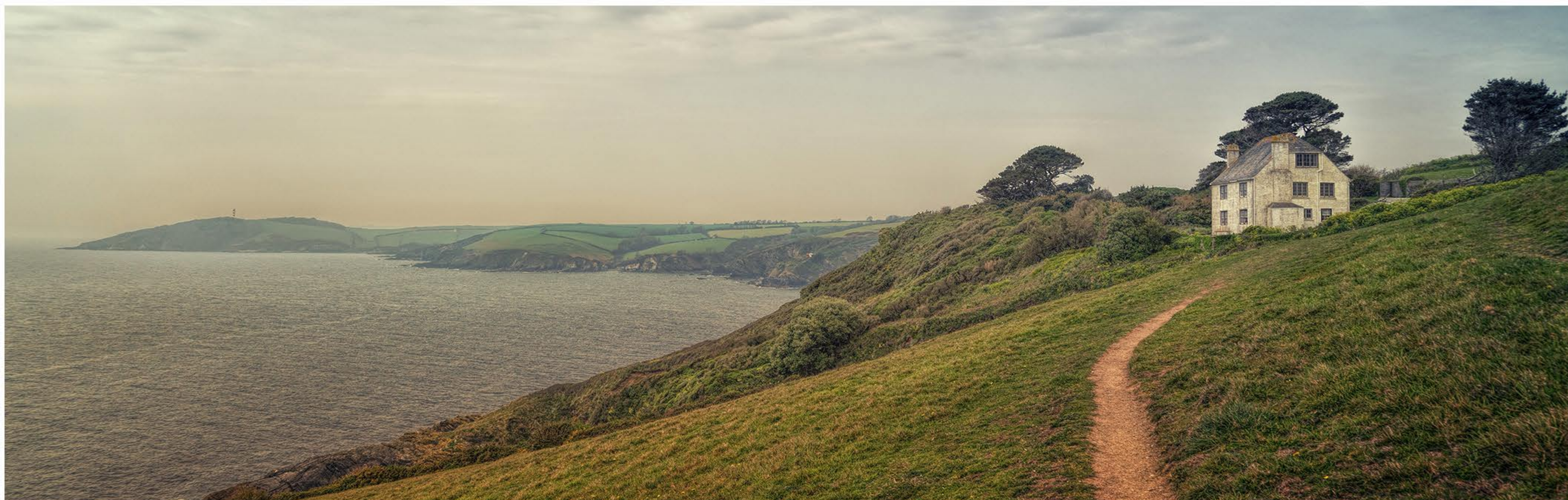
Capital Gains

Is a tax on the profit you make when you sell an asset that has increased in value. It's the gain you make that is taxed, not the amount of money you receive. This is not affected by Capital Allowances.

Integral Features

Are a subsection of fixtures. These tend to be longer life assets like heating systems, air-conditioning systems, hot and cold-water systems, electrical systems, lighting etc. Some of these integral items only became claimable due to the new legislation in April 2008 and can only be claimed on properties purchased after this date.

Definition of Terms



Annual Investment Allowance 'AIA'

The AIA is the amount of Capital Allowances you can write off in one year, when you have spent the money in that year. This allows you to accelerate through your Capital Allowances in many instances. For the calendar year 2019, the level is currently set to £1m which is usually more than enough for even the very largest of Furnished Holiday Lets.

Writing Down Allowance 'WDA'

The WDA is the normal method of relieving your Capital Allowances (aside from the AIA above). These means you get the benefit of the relief gradually over a number of years.

Testimonials



Savio D'Costa - Real Estate Solicitor, Healys LLP

“We have been involved in several projects with STax and have been highly impressed with the quality of advice they have given. I thoroughly endorse working with them.”

Dr Bruno Silva - Owner, Brighton Implant Clinic

“I was impressed by how STax took ownership of the negotiations and brought them to a swift close. Overall we successfully claimed under 40% of our expenditure in allowances. This gave us a massive and very welcome reduction in our tax bill.”

Damian Sablon - Managing Director, Danworth Holdings

“A complex area of tax dealt with efficiently and professionally, from the first meeting with Andrew Stanley the whole team provided an informative and outstanding service throughout the whole process.”

Andrew McKenzie - Managing Partners, Smart Accounting & Tax Solutions LLP

“I have referred a number of my clients as well as some of my contacts to STax so that their capital allowances claims for their buildings are calculated. My clients have been impressed with the high level of professionalism & expertise shown by STax when carrying out their work.”

Mr Ali - Property Owner

“Clarity throughout and achieved what we set out to do, communication was maintained to let me know every step of the way and the end result was achieved within a reasonable timescale.”