



Capital Allowances & Furnished Holiday Lets: Non-contentious, tax free rental profits, for many years

“The average capital allowances fixtures claim on a furnished holiday let can make the rental profits tax free for the first four to eight years!”

Furnished Holiday Lets:

A furnished holiday let or FHL is a furnished property that is let for numerous short periods. To qualify they have to meet a certain criteria. Furnished holiday lets are taxed in a generally more advantageous way than normal residential property, more akin to a commercial building than standard residential investment. One of the main tax advantages is the ability to claim capital allowances on both loose items of plant (e.g. furniture) and the fixtures in the property.

A correctly supported claim for capital allowances can mean that a FHL 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 as much as the first four years of operation, longer if you gear your investment.



So what are Capital Allowances?

Capital Allowances are a form of tax relief that can be claimed on items of plant and machinery 'P&M' used within the FHL to compensate you for the fact that they will dilapidate over time and eventually need replacing. 'P&M' includes the loose items in your property like furniture and white goods. It also extends to

the fixtures in the property like sanitary ware, kitchens, electrics, heating, fitted carpets etc. The average capital allowances fixtures claim on a furnished holiday let can make the rental profits tax free for the first four years!

Capital allowances are such an important relief for investors in FHLs that XYZ Developments has partnered with leading real estate tax advisory firm, STax, to pre-qualify and quantify the tax relief that could be available to you. This is to ensure their investors don't miss out on their full entitlement to this valuable relief.

Let's take a step back, what are capital allowances on fixtures and why should you be bothered?

Capital Allowances (CA's) 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 fixtures (electrics, plumbing, etc.) in commercial and some residential properties, furnished holiday lets included. Whilst capital allowances are a non-contentious area of tax set firmly on a statutory basis (i.e. claiming them is specifically allowed by legislation), they can still deliver substantial savings for investors in FHLs.

A proportion of the purchase price of a FHL is deemed to have been to pay for the fixtures that were in place at the time. You are perfectly entitled to claim capital allowances on these. Unfortunately, valuing them in a way acceptable to HMRC is not straightforward and requires the services of a specialist hybrid tax and surveying firm like STax.

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 bear 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.

As mentioned these claims can be a substantial amount. Our preliminary investigations give a conservative project wide average claim of 27%.

...continued



CAPITAL GAINS

There is no correlation between capital gains tax on a property sold for a profit and claiming capital allowances i.e. Claiming capital allowances does not increase your future capital gains at sale.

SDLT

Capital allowances can be claimed on all the capital costs of purchase, including the SDLT. This means a claim for capital allowances in effect claws back a proportion of the SDLT charged. Whilst the SDLT is still a substantial upfront cost, claim your full entitlement of capital allowances to take

the edge off the pain by getting back a proportion of the outlay!

This means that an apartment bought for £192,500 could claim £53,933 of allowance which equates to a cash saving of as much as £24,270.

Derwent House:

We have conducted a review of the construction costs & records and cross referenced this against the projected rental figures to derive the likely claim percentages for the properties on this park. Of course each property is unique and will have its own bespoke claim report so figures may vary from building to building but we expect the claim percentages to be circa 27% of the expenditure.

A detailed report will be provided to each property owner to forward to HMRC with your tax return to claim the relief. Full support will be given during this process at no further cost.

Working Example:

Derwent House – Cottage 1 Appleby Upon Westmoreland – Cumbria.	£	Projected Capital Allowance Claim (27%)	Cash Saving (45% income tax payer)
Purchase Price	£192,500	£51,975	£23,389
Conveyancing Cost	£1,500	£405	£182
SDLT	£5,750	£1,553	£699
Total	£199,750	£53,993	£24,270
Projected Net Letting Income		£22,582	
Years Tax Free Rental Income		2.4	

As you can see in the example above no tax is payable until a little way into year 2. If you were to finance your purchase then the allowances could deliver tax free rental returns for as long as 3.5 years, by which time you will have received almost £54k of rental profits with no tax being due. By comparison, if you hadn't claimed capital allowances and paid income tax at the highest additional rate, you would have paid almost £24k of income tax on the profits over the same period.



About Us

STax are specialist real estate tax advisors. We are a professional firm combining qualified tax advisors, certified chartered accountants and chartered RICS/MCIOB surveyors. With a team just shy of 20 strong, spread across three offices, over the best part of the last decade STax has grown to be one of most respected national players in the capital allowances sector.

Working seamlessly with your current advisors (general accountant, conveyancer etc) we are perfectly positioned to help investors in real estate maximise the benefits of their due capital allowances.

We are always happy to discuss what we do in as much detail as you would like (for the avoidance of doubt charges are only as a proportion of delivery i.e. we do not charge for consultations or phone calls). Please do not hesitate to contact us if you wish to discuss this further.

90 Chancery Lane,
London, WC2A 1EU

16-17 Queens Road
Brighton, BN1 3WA

Salt Quay House
Plymouth, PL4 0HP

272 Bath Street,
Glasgow, G2 4JR

T: (020) 7147 9940

F: (0330) 133 0903

E: Harry@s-tax.co.uk
www.s-tax.co.uk

We look forward to working with you.

Yours faithfully,

Andrew Stanley
Managing Director
Stanley Tax Associates Ltd
andrew@s-tax.co.uk
(020) 7147 9940