

ADDING VALUE

To Furnished Holiday Lettings

Plant and Machinery Allowances

These allowances are given, for qualifying items that are used in the course of a claimant's trade or profession. Allowances are given are 8% for assets that are deemed to be an integral part of the building and 18% for other qualifying items.

Enhanced Capital Allowances

A First Year Allowances of 100% is given for is available for qualifying items of energy saving or water saving technologies. This can provide a cash flow benefit of £20 for every £100 invested for a company or basic rate taxpayer or £40 for a higher rate taxpayer.

Annual Investment Allowance

The Government provides an Annual Investment Allowance, which gives 100% relief for the first £200,000 of qualifying expenditure. Like ECA's this can provide a significant cash flow benefit.

Enterprise Zones

This is a first year allowance of 100% of qualifying expenditure to companies investing in plant or machinery in designated in Enterprise Zones. The relief is available until 31 March 2020.



No need for a tax relief holiday!

Capital allowances are available for qualifying Furnished Holiday Lettings located in either the UK or what is defined as the European Economic Area.

When a property is purchased or developed as a furnished holiday letting, the first task is obviously to generate rental income from holidaymakers. The immediate priorities are often getting the property, setting, atmosphere, advertising and supply chain correct. In the desire to generate income from a new business, valuable property tax relief is often forgotten about and left unclaimed.

A number of items normally contained within a furnished holiday letting are eligible for relief. Typical items include: blinds, furniture, carpets, kitchen units, sinks, sanitary fittings, fire alarms, lighting, and heating.

Although, a formal lease agreement is not a stipulation to claiming this relief, a taxpayer will nevertheless have to demonstrate that the property is ordinarily let on commercial terms with a view to making a profit, as set out by HM Revenue and Customs.



How Capital Allowances Add Value

The main benefit of claiming capital allowances is that it may improve the cash flow for a taxpayer. In addition, claiming and maximising capital allowances has secondary benefits for the taxpayer including:

1. Providing a means where the taxpayer has more working capital at their disposal.
2. Making available more cash to pay lenders, therefore lowering the risk of the investment in the eyes of the lender.
3. Gives the taxpayer the potential of using the available cash generated through claiming capital allowances, to make further investments, or improve other areas of the business.
4. May in some circumstances create a payable tax credit from HM Revenue and Customs

For developers, the main benefit of for considering capital allowances is not in terms of improving cash flow but in enhancing the property's value for sale.

Highlighting to any potential purchaser, the value of any capital allowances, especially in terms of any energy and water saving technologies that qualify for Enhanced Capital Allowances will enhance the property's saleability.

In order to claim this relief, the taxpayer will need to ensure, that the property, also meets the conditions set out by HM Revenue and Customs in relation to the availability for commercial letting, and its occupation rates and patterns. These tests can be summarised as follows:

- The property used as the furnished holiday letting must be available for letting to the open market a minimum of 210 days.
- The property is in fact let on commercial terms as a holiday letting to the public for a minimum of 105 days during a specified period.
- The property must not be leased to the same person for a single period more than 31 days for more than 155 days during the year (although there is a period of grace). Where the property is let on a single lease for periods greater than 31 days such periods will not count towards qualification.
- The property must be furnished so that guests can be accommodated without the need for additional furnishings.
- The property must be a commercial property that is purchased or leased by an individual taxpayer or business. Property held in a pension fund or owned by a charity will not qualify.



Proactive advice is key to success

The full benefit of capital allowances advice is only realised when a taxpayer is proactive. A lack of proactivity often results in claims not achieving what they ultimately could have, and the full benefit of additional cash flow is not realised. To realise the maximum benefit, those undertaking these projects should note that:

- If you let more than one property as a FHL, and some of the property does not meet the 105-day limit for letting, you should consider electing to average the rate of occupancy for all the properties you hold. Preplanning is useful in this respect.
- Ensuring your construction team is aware of the type and level of information that will be required and ensure that this information is included in any contractual arrangements with your team.
- Reviewing the design in order to take full advantage of the benefits of claiming:
 - 8% or 18% relief on design items, e.g. carpet instead of tiled floors.
 - 100% enhanced capital allowances including review of initial mechanical and electrical specification and ECA.



Land Remediation Expenditure

The aim of this relief is to remove the cost barriers associated with remediating contamination from land and buildings by giving a 150% deduction for qualifying expenditure for UK companies.

Derelict Land Relief

Similar to Land Remediation Relief this 150% incentive is given where land, whose development has been blighted by various kinds of enduring dereliction, is brought back into productive use.

Research and development

100% tax relief available on certain items of capital expenditure incurred in providing facilities for Research and Development. RDA is only available to traders; a person carrying on a profession or vocation is not entitled to them.

Repairs and Maintenance

100% tax deduction available on certain refurbishment or maintenance costs deemed to be repairs and not improvements. It is important to note the changes to the rules in 2008 regarding the repair of integral features.

Business Premises Renovation Allowance

Introduced to give 100% relief on certain costs associated in bringing properties in designated areas back into business use. This relief is only available until 2017.



How we can help add value to your project

In order to add value to your project we look at each portfolio or single property on its individual merits. Our experience has taught us that no two properties are alike, each client has their own commercial objectives and each scheme has its own tax planning opportunities to maximise savings for the client. The nature of our work will depend on, whether we are involved proactively in delivering the project or retrospectively.

The specific ways that we can help include:

- Periodic review to ensure that the conditions for claiming the benefits associated with Furnished holiday lettings is complied with, including the averaging election.
- Review of any alterations or repair and maintenance to ensure that tax reliefs are maximised.
- Preparing the necessary elections to ensure that the pooling and fixed value requirements are complied with on the disposal of the property.
- Ensuring that expenditure that can qualify as a short life asset is identified and the appropriate election made.

Key Contacts



Scotland (East)
Lois Stirling
0131 610 0056
lois.stirling@cavettaconsulting.com



Scotland (West)
Alan Cadden
0141 432 0056
alan.cadden@cavettaconsulting.com

This briefing is intended to provide an introductory outline to certain aspects of the UK Capital Allowances regime. It should not be used instead of obtaining proper professional advice. The outline is for guidance only and is not an appropriate basis for decision-making.

About Us

At Cavetta Consulting, our directors have considerable experience advising businesses, property investors, landlords and occupiers on all capital allowances implications that impact their business.

Our fee structure is tailored to take account of the tax status of the individual or company, and is designed to add value to your business.

We offer free advice to businesses at the pre-planning stage of their projects to make them aware of the benefits the tax system allows, and a no obligation review of completed or potential schemes in order to determine whether a viable claim for property tax reliefs can be made.

