



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 five 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, similar to commercial buildings. One of the main tax advantages is the ability to claim capital allowances on not only the loose items of plant (e.g. furniture) but also 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 the first five years of operation.



SO WHAT ARE CAPITAL ALLOWANCES?

Capital Allowances 'CA':

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 five years!

Capital allowances are such an important relief for investors in FHLs that Byron at Woolacombe partnered with a leading firm in this area, STax to pre-qualify and quantify the tax relief that is available to you. This ensures that all investors can claim their full entitlement to this valuable relief.

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

Capital Allowances (CAs) 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 they are a non-contentious, statutory basis (i.e. claiming them is specifically allowed by legislation) area of tax they can still deliver substantial savings.

A proportion of the purchase price of a furnished holiday let 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.

In broad brush terms STax are calculating the ratio between the items you can claim and those you can't and then multiplying this through by what you spent.

As mentioned this can be a substantial amount. Preliminary investigations give a conservative project wide average of 27.7% (see below for block by block projections). This means that an apartment bought for £500,000 all in, could claim £138,500 of allowance which equates to £62,325 in tax saved, for someone paying the additional rate of income tax. That's equates to nearly 12.5% cash back on the purchase!



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.

Byron at Woolacombe:

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 per block. These figures are in the table adjacent. We will be involved at every step of the construction process and will finalise our calculations when the property is ready for occupation.

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

Byron at Woolacombe – Block Estimated capital allowances claim- (percentage)

Woolacombe	26.80%*
Mortehoe	30.34%*
Rockham	24.88%*
Barricane	24.54%*
Putsborough	30.27%*
Average	27.55%*

*Please note that at this stage these figures are estimates as the construction is still on going. They may be subject to change.

Example Claim:

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 to capital allowances take the edge off the pain by getting back a proportion of the outlay!

Woolacombe Penthouse (apartment number 3)		Projected Capital Allowance Claim (26.8%)	Cash Saving (45% income tax payer)
Purchase price	£ 525,000	£ 140,700	£ 63,315.00
Stamp Duty Land Tax 'SDLT'	£ 32,000	£ 8,576	£ 3,859.20
Conveyance cost (est)	£ 1,500	£ 402	£ 180.90
Total	£ 558,500	£ 149,678	£ 67,355
Projected net letting income		£ 34,338	
Years tax free rental income		4.36	

As you see can in the example above no tax is payable until a third of the way through year 4 by which time the FHL owner has made £150k of rental profits with no tax being due. By comparison, if you hadn't claimed capital allowances and paid income tax at the additional rate you would have paid £67,355 on the profits over the same period.



About Us

Here at STax we are specialist real estate tax advisors. We are a professional firm combining qualified tax advisors, accountants and surveyors. We are perfectly positioned to help investors in real estate maximise the benefits of their due capital allowances.

We look forward to working with you.

Yours faithfully,

Andrew Stanley
Managing Director
Stanley Tax Associates Ltd
Andrew@STaxUK.com
(020) 7147 9940

24 Greville Street
London,
EC1N 8SS

16-17 Queens Road
Brighton, BN1 3WA

The Plaza, 100
Old Hall Street
Liverpool, L3 9QJ

T: (020) 7147 9940

F: (0330) 133 0903

E: Info@StaxUK.com
www.STaxUK.com



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

STax is a trading name of Stanley Tax Associates Ltd. Stanley Tax Associates Ltd is registered in England and Wales (Co' reg: 07691766, VAT Reg: 117 9729 82, registered office: 16-17 Queens Road, Brighton, Bn1 3WA) Tel: (020) 7147 9940.. Our standard terms and conditions apply at all times.