

GM Expat Tax

UK PROPERTY TAX DEDUCTIONS FOR THE COST OF REPLACING FURNITURE, WHITE GOODS, ETC CESSATION OF THE RENEWALS BASIS WEAR AND TEAR ALLOWANCE

Until the 5th of April, 2013 landlords of furnished property were able to claim 100% of the cost of replacing items such as cookers, fridges, TVs, etc (known as the "renewals basis") – or a 10% wear and tear deduction could be claimed.

Under the old renewals basis it was possible to deduct from income the cost of replacing furniture etc in the normal course of carrying on a rental business. No tax relief was available for the initial cost of furniture – ie in making the property available for letting - but subsequent renewals would have been allowed when calculating the net property income.

From 2013/14 onwards the renewals basis ceases to be available, although the wear and tear allowance continues for furnished property.

The wear and tear allowance is calculated as 10% of the net rents after deducting charges or services that a tenant would usually pay but which are actually met by the landlord - for example Council Tax and water rates.

Importantly though, some equipment is considered to become part of the building when it is installed. This includes boilers, water heaters, and air conditioning systems.

For this equipment HM Revenue's view is that when this type of equipment is replaced it is considered to be a repair to the building as a whole, and is not a separate renewal of the item of equipment.

This should allow the **entire cost** of replacing the item to be claimed as a tax deductible item.

By contrast 100% of the cost of replacing items such as free standing cookers and fridges cannot be claimed as an allowable expense.

An extract from HM Revenue's present guidance material is below.

What is a furnished property?

Given a 10% wear and tear tax allowance is available for a furnished property it can be attractive for a landlord to claim to have a furnished residential let, especially if s/he spends small amounts on the furnishings.

So what is a furnished residential property?

In short, the tax legislation says that a dwelling house must have "sufficient furniture, furnishings and equipment for normal residential use"

In other words, a tenant must be able to move in and live in the property without being required to provide anything other than their clothing and food.

"Normal residential use" is not defined, and what is necessary can change over time but we consider that certain items are essential for a property to be considered a furnished let – these include beds, chairs, tables and a cooker.

The contents of this factsheet are necessarily a general overview of a detailed subject. We recommend that you take professional advice about your specific circumstances.

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HM Revenue & Customs

BIM46910 - Specific deductions: repairs and renewals: what is a repair: the 'entirety'

W - <http://www.hmrc.gov.uk/manuals/bimmanual/bim46910.htm>

It is important to identify the asset on which work has been carried out. This is because:

- the cost of repairing a worn or dilapidated asset is normally an allowable expense;
- the cost of replacing the whole or the 'entirety' of an asset is not a repair; it is capital expenditure and not an allowable expense.

What forms the asset or entirety is a question of fact. You need to decide whether the 'asset' is in fact a separate asset or is part of a bigger asset.

The basic starting point is to establish the facts about the specific asset you are looking at and then simply to ask the question; does this look like a separate asset? Is it something that stands apart from other assets, is it freestanding or is it something that is removable? This is a question of fact and degree; there are no 'tests' that can be applied.

With buildings and structures, the question is whether the item replaced appears to be a free-standing asset. The fact that it is connected to another structure, for example by a flue, does not make it part of that larger asset.

Another question is whether something has become part of something else. If something is a 'fixture' then it has become part of the building and not an entirety in its own right. Except where an 'integral feature' is being replaced replacing a fixture is a repair to the building. As is shown by the name, a fixture has to be attached to the building. However simply being attached does not make something a fixture. For guidance on what is a fixture, see the Capital Allowances Manual at CA26025.

If the object is intended to be permanently attached and to make a lasting improvement to the property, it is a fixture, and so part of the building and not an entirety. That guidance also looks at where the capital allowances legislation provides an entitlement to allowances in certain circumstances in respect of expenditure incurred on plant or machinery that is or becomes a fixture.

If the object is only temporarily attached to a building, such as a fridge freezer plugged into a wall socket in a kitchen, and the attachment is no more than is necessary for the object to be used and enjoyed, then it is not a fixture and remains a separate asset.