

Capital Allowances Tax Relief Making Your Furnished Holiday Letting More Profitable

Capital allowances are a valuable form of tax relief on capital expenditure on your Furnished Holiday Lettings (FHLs) and can offer significant savings for the UK taxpayer.



How you can benefit

This tax relief can benefit you in several ways:

- Capital allowances allow you to claim tax relief on your fixtures and fittings AND your integral plant and machinery
- You can use this relief to offset the profits on your FHLs, thereby reducing your tax burden
- This relief can be retrospective so it does not matter when you purchased, constructed or refurbished your FHL
- Currently Annual Investment Allowances allow you to claim your allowances faster on the first £100,000

Capital allowances can offer significant savings for any UK tax payers

How do you qualify?

These allowances can be claimed by anyone who owns FHL properties and who has incurred capital expenditure in the process of purchase, construction or refurbishment.

The following qualifying criteria must also be met:

- The FHL must be let on a commercial basis
- It must be available for letting for more than 140 days per year
- It must be actually let for more than 70 days per year
- The FHL must be located in the UK or the European Economic Area

The European Economic Area includes all the member states of the European Union plus Iceland, Lichtenstein and Norway.

Time to Act

In the last budget the rules governing this tax relief were tightened considerably.

Since 1983, owning an FHL in the UK has had considerable tax advantages, including the availability of capital allowances. These advantages were extended to EEA properties in 2009.

From April 2011, there will be two types of FHL trades; UK FHLs and the EEA FHLs. Both can still claim capital allowances. However, the allowances on one cannot be used to offset the profit of another trade.

Secondly, from April 2012 there will be a significant tightening in the qualifying criteria. So to qualify for FHL purposes your property will have to be available for commercial lettings for at least 210 days a year. It must also be let to members of the public (i.e. not family) for at least 105 days a year - both increased by 50%.

Dorset, UK

Evaluate

Mrs B, after hearing E³'s Managing Director, Alun Oliver, speak at a seminar on capital allowances she sought the advice of their accountant, which were happy to recommend E³ Consulting to review the FHL as it was on a contingent fee basis. Mrs B, had spent £500,000 refurbishing several disused barn buildings into two luxury furnished holiday cottages, a games room and swimming pool.



Evolve

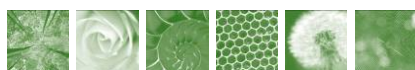
E³ undertook a detailed site survey and analysed the project accounts in assessing the tax relief available. Capital allowances, over and above those already claimed by the accountant, were identified at £200,000 - 40% of the project cost.

Enhance

Mrs B received a £20,000+ rebate in the first year and total tax savings of circa £80,000.

Testimonial

"E³ Consulting kept us informed throughout the process and liaised closely with our existing accountants – we received a tax rebate in excess of £20,000 with further savings flowing through over time."



Period of Grace

To cover the period of transition between these changing criteria, a 'period of grace' will be introduced. For owners who do not meet the new 'actually let' requirements, they are permitted to elect to continue to qualify for capital allowances for a period of one/two years after April 2012.

Surprisingly this is actually a good result as while the rules have become stricter the previous Labour Government had sought to abolish FHLs altogether.

What can you claim?

Capital allowances allow you to claim on the capital expenditure on your qualifying asset (your FHL). There is no exhaustive list of what qualifies as capital expenditure but claims tend to focus on two types of item.

- Fixtures, fittings and equipment including all loose furniture, fitted kitchens and bathrooms etc.
- Integral plant and machinery including items such as swimming pools, central heating, electrical and air conditioning systems.



Surely my accountant has already claimed the allowances?

In the majority of cases these allowances are under claimed or not claimed at all. This results in you - the tax payer - paying too much tax.

Typically your Accountant will already be claiming some allowances on the fixtures and furnishings. In our experience they are surprised to find out that a claim can also be made on items

of expenditure inherent in the building itself.

The legislation covering this area of tax is not simple to understand, with a mass of HMRC manuals, guidelines and tax legislation to interpret.

Therefore employing a specialist is a must to ensure a successful outcome and a truly optimised claim.

What we can bring as a specialist surveying firm?

E³ Consulting are specialists in property taxation - we don't do anything else. We work with owners of FHL properties, and collaboratively alongside their professional advisors to identify property tax savings.

In our experience employing a tax specialist is vital to optimise your savings. In over 80% of cases we enhance the value of tax savings, over and above those identified by non-specialists.

As Chartered Surveyors only dealing with property taxation we give a unique skill set to efficiently evaluate our clients' property expenditure.

Being surveyors, we are more capable of identifying, and correctly valuing assets in your FHL to assist your accountant in processing a full claim.

Our experience also means we are better equipped to assess claims based on our knowledge of previous similar projects, case law and of HMRC interpretations.

Evaluate, Evolve, Enhance

We don't start with preconceived 'solutions', instead we **evaluate** all the factors of any individual FHL transaction.

We then use our property, construction and taxation skills, and expertise to **evolve** the tax strategy, planning processes & claims prepared to **enhance** the available tax allowances, thereby delivering cash savings to our clients.

Cannes, France

Evaluate

E³ Consulting was appointed by Mr & Mrs S, after purchasing an apartment near Cannes for £300,000.



Evolve

Having analysed in detail the contract costs and associated fees, E³ was able to identify £110,000 in capital allowances - 36% of the purchase cost.

The allowances included plant and machinery on both the apartment and within the communal areas of the surrounding block - including the swimming pool.

Enhance

Mr & Mrs S received an £8,800 rebate in the first year and will receive total tax savings of £44,000 at their 40% income tax rate.

Testimonial

"E³ Consulting were very responsive enabling us to meet the 31st Jan tax deadline despite only appointing them in late November - the overall result was a great surprise!"

Next Steps

Contact us to discuss your particular requirements and explore how we could add value to your FHL property. Initial discussions are free and without obligation. So let us provide you with our free HealthCheck.

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This information is intended to provide general guidance only. The availability and quantum of any tax relief is dependant upon detailed legislative criteria and specific advice should always be sought in respect to any particular circumstances or project. E³ Consulting Limited can accept no responsibility for any action or inaction resulting from this information. The reader is herewith advised to take professional advice for each specific transaction.



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