

Capital Allowances for Furnished Holiday Lets

Furnished Holiday Lets (FHL) offer several tax benefits which are not available to traditional buy-to-let businesses including the ability to claim capital allowances. Capital allowances provide tax relief for expenditure on certain capital assets used in the holiday rental business.

Our EQ Leisure specialists give working examples of a FHL making new and historic capital allowance claim below.

A new capital allowance claim

Mrs Smith purchases a property for £200,000 on which no capital allowances had been claimed previously. The property is then let out and in its first 12 months qualifies as an FHL and generated a profit of £25,000 (income less costs).

When preparing her accounts and tax return, her accountant was able to identify £50,000 of qualifying costs within the purchase price along with an additional £10,000 spent on beds, electrical goods and other furniture.

Under the above scenario the capital allowance claim would total £60,000 and all will qualify for the AIA, allowing 100% write off in the year.

The profit of £25,000 is reduced by the capital allowance claim of £60,000 to turn into a taxable loss of £35,000. The loss will be carried forward and offset against future profits. Assuming Mrs Smith was a higher rate taxpayer, the capital allowance claim will save £25,200 (£60,000 x 42%) in tax.

A historical capital allowances claim

Mr Smith purchased a property for £200,000 on which he did not initially claim capital allowances but instead is making a historical claim where the AIA is not available.

The £50,000 qualifying spend on integral features only attracts tax relief at 6% per year which equates to a tax deduction of £3,000. The £10,000 other spend attracts tax relief at 18% or £1,800 tax deduction.

The taxable profit for the year is therefore £20,200 (£25,000 - £3,000 - £1,800) on which tax is still due at 42%. The historic claim has only saved £2,016 (£4,800 x 42%) of tax in the year of the claim but will provide a similar level of tax relief in the subsequent years until the value has been exhausted.

Timing is therefore crucial and appropriate professional advice should be sought at the first available opportunity.

You can contact us on 01382 312100, email us at leisure@eqaccountants.co.uk or visit our website (www.eqaccountants.co.uk) for further information relating to the leisure sector.

Disclaimer: We make every effort to ensure that the information provided is accurate and up to date, however EQ cannot be held responsible for any action taken, or not taken, as a result of reading this publication.