

# Frequently Asked Questions

Capital Allowances and Tax Relief



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## Frequently Asked Questions

### Q. What type of property qualifies for capital allowances?

A. Broadly, three types:

- **Commercial** - any property used for commercial use
- **Multi-let or HMO** - residential property let to 2 or more unrelated households
- **Furnished Holiday Lets (FHL)** - in the UK or the European Economic Area

Examples of qualifying commercial property:

- Factories
- Industrial Units
- Retail Offices
- Warehouses
- Distribution Centres
- Garages
- Car Yards
- Nursing Homes
- Leisure Facilities
- Hotels
- Doctors Surgeries
- Pubs
- Bed and Breakfast
- Restaurants

**Note:** Commercial property typically attracts capital allowances of between **15% and 50%** of the purchase price and / or improvement costs.

### Q. What is a Multi-let or HMO?

A. Basically, properties that are let to a minimum of 2 unrelated households or tenants. There are usually formal agreements (such as an assured shorthold tenancy or license) in place to show this. Multi-let property does not have to be licensed, unlike an HMO.

**Note:** Capital allowances will apply to the communal areas of Multi-lets and HMOs; they typically attract allowances of between 7% and 20% of the purchase price, depending on the date of purchase. Unlike rental losses capital allowances may be off set against **any** taxable income.

### Q. I own a buy-to-let property and have two tenants living in there. Can I claim capital allowances on this property?

A. Yes, in order to qualify as a multi-let it must house two unrelated tenants. Depending on the purchase date, this type of property will typically attract capital allowances of between 7% and 20% of the purchase price.

## **Q. What is a Furnished Holiday Let (FHL)?**

**A.** A furnished property available for commercial letting to the public as holiday accommodation.

- Situated in the UK or the European Economic Area
- Available to rent for a minimum of 140 days per year
- Rented out (at market rate) for a minimum of 70 days per year
- Short-term letting (no more than 31 days to the same person)

**Note:** Property losses for a FHL may be set against any taxable income **as well as** capital allowances. FHLs typically attract 25% of the purchase price.

## **Q. Who Can Claim?**

**A.** Any UK taxpayer (paying income or corporation tax) who owns a qualifying property used in the course of their business.

### **Exceptions**

- Charities
- Registered Social Landlords
- Local Authorities
- Property developers and traders (if the property is considered their trading stock)
- Property in a self invested personal pension (SIPP) or held in a pension fund does not qualify
- Property against which a full claim has already been made (this is very rare)

## **Q. Does claiming capital allowances reduce the value of my property?**

**A.** No. You have a right to claim capital allowances, and whether they are claimed or not, they are not taken into account when a property is valued for accounting or commercial purposes.

## **Q. Will claiming my capital allowances mean I have to pay more Capital Gains Tax (CGT) when I sell?**

**A.** No. Claiming and benefiting from your capital allowances in no way affects any future CGT liability. Being awarded allowances does not increase your capital gain from the asset.

## **Q. I have a good accountant. Wouldn't he have claimed already?**

**A.** HM Revenue & Customs estimates that only 4% of eligible claims for capital allowances have been made. That is certainly not a criticism of the 96% of accountants and their clients who have yet to make a claim. It does however underline the fact that this is a specialist area. We want to ensure you benefit from the latest case law and recent clarifications in what can and can't be claimed. Rather than working against your accountant, our aim is to work with them, to your benefit. We are capital allowance specialists, not tax accountants, we provide our clients accountants with a HMRC compliant claim report to be submitted as part of the tax return process.

**Q. My accountant tells me that he has already claimed all of my eligible capital allowances. That's good enough, isn't it?**

**A.** Your accountant may have claimed some of the capital allowances due to you. In our experience, however, significant errors are common where only a fraction of the allowances available have been claimed. A detailed claim resulting in the full entitlement involves an inspection of the property by a specialist quantity surveyor. It is unlikely your accountant has arranged this for you.

**Q. What if I don't have an accountant?**

**A.** No problem. We can refer you to a qualified property tax-accountant who understands capital allowances.

**Q. My business is operating at a loss. Why should I make a claim?**

**A.** The tax relief generated by your allowances can be offset against any taxable income or profits. You may have income or profits elsewhere, in a group of companies for example, that the capital allowances can be set against. In our experience it is best to identify any qualifying expenditure promptly. Many allowances can be 'disclaimed' in other words you can set them aside until you need to use them. That could be invaluable for your business in the future!

**Q. I bought this property 3 years ago. Is it too late to make a claim?**

**A.** It's rarely too late. The property must still be owned by you and used in the course of your trade. If that is true, then you can still claim capital allowances, even if you bought the property 3 years ago.

**Q. Does the property need to be on a buy-to-let mortgage?**

**A.** No. There is no relationship between the mortgage type and a capital allowances claim.

**Q. What about HMRC? Will my claim upset them?**

**A.** HMRC exists for a specific purpose; to collect and allocate money in the form of taxes according to Law and Government guidelines. This must be done in a fair and consistent manner. HMRC deal with such claims on a day-to-day basis. When the correct information for a claim is presented in the approved manner, the system works very well and smoothly. Remember – this is money the Law says you are entitled to. Throughout the whole process our team will be there to assist in the case of any query.

**Q. What are 'Plant and Machinery Assets'?**

**A.** These are the items which qualify for tax relief and include such diverse items as heating installations, wiring and sanitary ware. The list of qualifying items is lengthy.

## Q. How much will I have to pay you?

A. Our fee is just 5% of the identified capital allowances, plus VAT (a minimum fee applies). Our fees are transparent and linked to the amount of relief available to you.

To understand our fees better, please take a look at the examples below.

Property Purchase Price	Allowances Available* (tax free income)	Tax Benefit (at a 40% tax rate)	Our Fees
£200,000	£40,000	£16,000	£2,000 + VAT
£350,000	£70,000	£28,000	£3,500 + VAT
£500,000	£100,000	£40,000	£5,000 + VAT

\*This is a guide only, allowances calculated at 20% of the property purchase price.

## Q. What does your fee include?

A. Everything. We cover the whole process which includes the evaluation of your claim, a full site survey, due diligence required by HMRC to ensure no previous claims have been made, along with providing supporting evidence and guidance notes for your accountant. We also give a full 6 years support in the unlikely event that your claim is ever disputed.

## Q. When do I pay your fee?

A. Once we have generated the full claim report, you will receive a finalised copy along with our invoice.

## Q. How long will it take for my claim to be processed and the payment from HMRC to be made to me?

A. If your accountant is submitting your claim then we have no control over how quickly this will be done. It can be within 4 weeks of HMRC receiving your claim, but is sometimes a little longer.

## Q. Can the taxman query my claim?

A. It's possible, but very rare. For your peace of mind we will fully support your claim for 6 years.

## Q. How far back can I claim?

A. For capital allowance purposes, you can make amendment to any 'open' tax period. Currently, you can amend the 09/10 tax return.

**Q. I rent out a property I used to live in - does it qualify for a claim?**

A. Yes, as soon as you have moved out and the property is in qualifying activity i.e. multi-let.

**Q. If I sell my property, will I lose my claim?**

A. Most of the time, no, however you may need to make certain elections within the sale of a commercial property to safeguard your position.

**Q. What is the tax year?**

A. For individuals the tax year is from 6<sup>th</sup> April until 5<sup>th</sup> of April the following year.

**Q. I am very busy. How much of my time will the process take?**

A. We only need some basic information from you to start, and we will happily do the rest. Our specialist surveyor will collate much of the needed information when he visits the property.

**Q. What do I do next?**

A. For a no-obligation tax saving illustration, please fill in our short enquiry form.