Capital allowances and balancing charges in a property rental business

This Help Sheet gives you information to help you fill in the *UK property* pages in your Tax Return. The box numbers mentioned below refer to those pages.

In working out your property rental business profits you must not deduct the cost of buying, altering or improving fixed assets, or depreciation or any losses that arise when you sell them. Instead, you may be able to claim tax allowances called capital allowances. These are deducted in working out your profits in boxes 30 to 32. An adjustment, known as a balancing charge, may arise when you sell, give away or stop using an item in your business. Balancing charges are added to your profits in box 29. These notes explain how you can work out these capital allowances and balancing charges. You should also read Help Sheet 222 *How to calculate your taxable profit* for more information on capital allowances.

What can capital allowances be claimed on?

You can claim capital allowances for the cost of plant and machinery such as vehicles, tools, ladders, computers and business furniture that belongs to you (see 'Plant and machinery' on page 2), and agricultural buildings, industrial buildings and certain other buildings (see page 6).

If you purchased the assets or equipment using an alternative finance arrangement the capital allowances cost is the original cost of the asset. The original cost does not include any alternative finance payments which are the charges made by your finance provider over and above the original cost of the asset or equipment, for example, interest.

The following advice is written on the basis that you have a standard accounting period of 6 April to 5 April. If your accounting period is different, for example from 1 September to 31 August, please see Help Sheet 222 *How to calculate your taxable profits* for further guidance.

Value Added Tax (VAT)

The purchase price of an asset on which you can claim capital allowances sometimes includes VAT. If you are registered for VAT and can offset that VAT against your output tax when you make your VAT returns, you should only claim capital allowances on the net cost of the asset.

If you are registered for the VAT Flat Rate Scheme and enter details of your income and expenses net of VAT (that is, with the VAT taken off), you should only claim capital allowances on the net cost of the asset.

If you are not registered for VAT or can only claim an element of the VAT you have incurred, for example, because you are partially exempt, include the irrecoverable VAT paid in the capital costs on which you claim capital allowances.

What if I use an item partly for private purposes?

If you use an item of equipment for both business and private purposes, the allowances you claim should be reduced by the amount of your private use. This is explained in the section headed 'Plant and machinery used only partly for business' (see page 5)

You cannot claim for anything bought solely for private use, or for plant and machinery like furniture let for use in a dwelling house.

How to make a claim

Enter in boxes 30 and 32 (and 29 if appropriate) the amounts you wish to claim or return. These figures should be the amount worked out from the rules set out in these notes unless you choose to claim a lower amount. If you are in doubt, ask us or your tax adviser for help.

Plant and machinery

You can claim allowances called Plant and Machinery Allowances, for the cost of equipment such as vans, cars, machines, scaffolding, ladders, tools, furniture, computers and similar items which you use in your business. Do not claim for the things it is your trade to buy and sell as these should be claimed as business expenses.

From 6 April 2008-09 the following plant and machinery allowances are available:

- Annual Investment Allowance (AIA)
- writing-down allowances (WDAs) - these are annual allowances normally calculated at 20% a year which reduce, or 'write down' any balance (or 'pool') of capital expenditure on equipment ('plant and machinery') not already relieved by other allowances
- small pools allowance - an alternative to the normal WDA which can write off the whole balance in a pool where this is not more than £1,000
- balancing adjustments - which can be either an allowance or a charge. These can arise when your business ceases or you sell an asset for more or less than the total written down value of the pool
- 100% first year allowances - for example, for investments in 'green technologies'.

Annual Investment Allowance

You can claim a new capital allowance, called an Annual Investment Allowance (AIA), if you bought equipment (but **not** cars) on or after 6 April 2008 up to an annual amount of £50,000. This has replaced the 50% and 40% first year allowances that were available to small or medium sized businesses on the cost of equipment in previous years. Add the cost of all the equipment together and, if the total cost is £50,000 or less, you can claim 100% of that whole amount as your AIA. Enter the total amount of AIA in box 30.

Writing down allowances

Where you have spent more than £50,000 in a year on equipment, or have purchased a car that cost £12,000 or less (for cars costing more, see the section on 'Cars' on page 4), add all the expenditure together to make a 'main pool' of costs. Deduct any AIA up to £50,000 that you are claiming (exclude cars which are not eligible for AIA). You can then claim a writing down allowance of 20% of the remaining pool value (unless the expenditure is 'special rate' expenditure - see page 3).

Example 1

You have spent £70,000 on general equipment and the total expenditure is pooled. You can claim £50,000 of this as an Annual Investment Allowance. The balance of £20,000 qualifies for 20% writing down allowance, which is £4,000. The amount remaining in the pool (£16,000) should then be carried forward to the next year.

Small pools of less than £1,000

If the balance of the cost after claiming AIA, together with any balance carried forward from any previous year, less the proceeds from any items you may have sold, is £1,000 or less at the end of a 12 month chargeable period, you may claim that whole amount as a 'small pools allowance' instead of the 20% writing down allowance.

Example 2

1 Paul spent £50,500 on equipment during 2008-09. The total expenditure is pooled. He claimed the full £50,000 Annual Investment Allowance and, as the amount remaining is less than £1,000, he can claim the remaining £500 as a small pools allowance.

2 John spent £1,500 on equipment and brought forward a pool of £700 from 2007-08. He can claim the full £1,500 as AIA and the £700 pool brought forward as a small pools allowance.

Special rate expenditure

Certain items of equipment such as:

- thermal insulation that you may have added to an existing building
- integral features (for example, electrical systems, cold water systems, lifts, escalators and moving walkways), and
- long-life assets (equipment with a planned life of over 25 years)

qualify for special rate allowances at 10% a year. You may use your £50,000 AIA wholly or partly against this expenditure in preference to expenditure that qualifies at the 20% rate. Any balance of expenditure after the AIA has been taken off will be included in the 'special rate pool' and will qualify for special rate allowances at 10%.

Alternatively, if the balance after claiming the AIA, together with any balance carried forward from any previous period, is £1,000 or less at the end of a 12 month chargeable period, you may claim that whole amount as a small pools allowance, instead of a 10% special rate allowance.

Example 3

Jack Green started renting out a property on 6 April 2008 and draws up his accounts to 5 April each year (5 April becomes his accounting date).

When he started, he bought a computer for £2,000 and equipment for £18,000 and on 1 December 2008 he bought a van to use in the business for £36,000. The ladders, specialist equipment and van together make a 'pool' of cost or value. In 2008-09 the pool qualifies for Annual Investment Allowance and the expenditure over that amount qualifies for 20% writing down allowance. For 2009-10 the annual allowance is 20% on the remaining pool brought forward.

Period ended 5 April 2009	
Cost of computer	£ 2,000
Equipment	£18,000
Van cost	£36,000
Total capital expenditure	£56,000
What can be claimed?	
Annual Investment Allowance (box 30)	£50,000
20% writing down allowance (£6,000 x 20%) (box 32)	£ 1,200
Pool value to be carried forward to 2010	£ 4,800
Year ended 5 April 2010	
Value brought forward	£ 4,800
Minus	
20% writing down allowance (£4,800 x 20%)	£ 960
Pool value to be carried forward	£ 3,840

£960 goes in box 32 on the 2009-10 Tax Return.

100% first year allowances

You can claim 100% capital allowances for:

- designated energy-saving or water-efficient equipment used in your business
- equipment for refuelling vehicles with natural gas, biogas or hydrogen fuel, even if you have otherwise used up your Annual Investment Allowance.
- new cars with low CO_2 emissions of not more than 110gm a km driven (even if the car costs more than £12,000). Cars do not qualify for AIA.

For more information see **www.eca.gov.uk** or the Capital Allowances Manual available at **www.hmrc.gov.uk**

Accounting periods that do not correspond with the tax year

If your accounting period does not correspond with the tax year of 6 April 2008 to 5 April 2009, is longer than a year, or is shorter than a year, please see Help Sheet 222 *How to calculate your Taxable Profits* or contact us.

Cars

When you use a car for your property rental business, capital allowances (but not AIA) may be claimed.

If a car costs more than £12,000, the yearly 20% writing down allowance is restricted to £3,000 for each car. A separate calculation as shown in Example 4 must be made for each such car - they are not included in the pool.

When you sell the car, the difference between the sale price and the value brought forward is allowed as a balancing allowance (added to other capital allowances for the year) or, if a profit, is taxable as a balancing charge subject in either case, to any necessary restriction for private use.

Example 4

Your accounts are drawn up for the year to 5 April 2009.

You spend £16,000 in that year on a car that is used in your property rental business. The business usage is agreed at 30%

Cost of car	£16,000
Minus	
Writing down allowance @ 20% (restricted)	£ 3,000
Value to carry forward	£13,000

The writing down allowance you can claim is £3,000 x 30% = £900.

Plant and machinery used only partly for business

These items should not be included in any pool. Instead, the allowances on each item should be worked out separately. The AIA, writing down allowance and any balancing allowance or charge when the item is sold, should be reduced so that only the business use proportion is taken into account.

Example 5

Your accounts are drawn up to 5 April each year. You run a business of leasing caravans and buy a new caravan for £75,000 which you hire out for 90% of the year and use privately for the remaining 10%. The internal decor is damaged so you decide to sell it in 2009-10 for £15,000.

The capital allowance calculation is:

Year 2008-09	**Total (less total allowances)**	**Business use (90%)**	**Private use (10%)**
Expenditure on caravan	£75,000	£67,500	£7,500
Minus			
AIA for 2008-09	(£50,000)	(£45,000)	(£5,000)
Balance	£25,000	£22,500	£2,500
Minus			
WDA at 20%	(£5,000)	(£4,500)	(£ 500)
Value carried forward	£20,000	£18,000	£2,000
Total capital allowance (AIA + WDA)		**£49,500**	
Year 2009-10			
Balance brought forward	£20,000	£18,000	£2,000
Minus			
Sale price	£15,000	£13,500	£1,500
Balancing allowance	£5,000	**£4,500**	Nil

The balancing allowance that can be claimed is £4,500 as this reflects the amount of business use.

Private use of cars

This category includes any cars costing less than £12,000 which are not used solely for business. These items should not be included in any pool. Instead, the allowances on each item should be worked out separately (in the same way as Example 6). There is no £3,000 restriction on the writing-down allowance for cars that cost less than £12,000, but they do not qualify for AIA.

Example 6

Your accounts are drawn up to 31 December each year. You buy a car for £8,000 in 2008 and sell it for £5,000 in 2009. You use it 50% for business.

The calculation is:

2008–09

Cost of car	£8,000
Minus	
Writing down allowance (£8,000 x 20%)	£1,600
Value to carry forward	£6,400
The writing down allowance which can be claimed is (£1,600 x 50% business use)	£ 800

2009–10

Value brought forward	£6,400
Minus	
Sale price	£5,400
Difference	£1,000
The balancing allowance which can be claimed is (£1,000 x 50% business use)	£ 500

Assets leased out

You can claim capital allowances for assets you own and lease out to other users provided the asset is not a long funding lease. If the lease began before 1 April 2007 it cannot be a long funding lease. You should consult us or your tax adviser if you think a lease is a long funding lease. Capital allowances on these assets should be claimed in the same way as for assets you use personally in your property rental business. However, if the asset is used by a person who is not resident in the UK, you will need to discuss with us, or your tax adviser, which allowances are due. Unless you are conducting a leasing trade, assets leased out are not pooled. A separate capital allowances calculation should be made for each asset leased out.

Buildings

You can claim capital allowances for the cost of:

- constructing or altering agricultural or industrial buildings (including certain types of hotel) and for expenditure incurred in certain Enterprise Zones. Further information about agricultural buildings allowance and industrial buildings allowance can be found in the Capital Allowances Manual available at **www.hmrc.gov.uk** If you want to claim agricultural buildings allowance, Help Sheet 224 *Farmers and market gardeners* contains information about the allowance as well as other special rules that apply to farmers and market gardners

- renovation or conversion of vacant or underused space above shops and other commercial premises to provide flats for rent. Further information about Flat Conversion Allowance can be found in the Capital Allowances Manual
- the renovation, conversion or repair of business premises that have been empty for over one year in Assisted Areas in order to bring it back into business use. Any Business Premises Renovation Allowance is entered in box 31. Further information about Business Premises Renovation Allowance can be found in the Capital Allowances Manual.

Contact us or see your tax adviser for further information.

Disposals of equipment

If you sell or dispose of something, the sale proceeds (or the value if you gave it away or stopped using it in the business) are deducted from the pool. If there is nothing in the pool, the amount deducted will give rise to a balancing charge. If the sale proceeds etc are more than the original cost of the asset, you should only deduct the original cost, unless you acquired the asset from a connected person. If you did, you should deduct the greater of the cost to them or your cost if both of them are less than the sale proceeds. Once these adjustments have been made, your writing down allowance for those items is calculated. If the sale price is more than the value of the pool, the difference is a balancing charge and should be included in your taxable profits by entering it in box 29.

Example 7

Graham has a pool of £10,000. He sells some equipment for £11,000. His capital allowance computation for 2008-09 is:

Value brought forward	£10,000
Minus	
Disposal proceeds	£11,000
Balancing charge	£ 1,000

Often you will be disposing of items and purchasing new items, which qualify for allowances, in the same year. The following example explains how to calculate your allowances.

Example 8

Jim has a holiday letting business. For 2008-09, Jim brings forward a balance of £900 in his main pool of expenditure from the previous year. He spends £55,000 on two new vans and some new tools and sells his old van for £5,000.

For 2008-09, Jim is entitled to claim both a £50,000 AIA and £900 'small pools' allowance, as follows:

Main pool balance brought forward	£ 900
Add	
New expenditure on van and tools	£55,000
Minus	
AIA for new expenditure (box 30)	(£50,000)

Minus	
Proceeds from sale	(£5,000)
Unrelieved balance	£ 900
Minus	
Small pools allowance (box 32)	(£ 900)
Balance carried forward	Nil

Ceasing your business

If your business ceases you should deduct from the value of the pool the sale prices for any items you sell, or their values if you keep them. If these are more than the value of the pool, the difference is a balancing charge. Enter any balancing charges in box 29. If there is any value remaining in the pool, do not work out a writing down allowance but claim the value remaining as a balancing allowance, instead. Include any balancing allowances in box 32.

The example below shows how this is done. If you sell any items for more than you paid for them, or their value if you keep them is more than you paid for them, you should deduct the amount you paid for those items from the pool, and not the sale price or value. If you acquired the item from a connected person, you should deduct the greater of the cost to them and your cost if both are less than the sale proceeds.

Example 9

Jackson has been renting out a property for many years. He draws up his accounts to 31 March each year. At 31 March 2008 the value in the pool is £10,000. He stops business on 1 July 2008. He keeps a word processor with a market value at 1 July 2008 of £2,000. He sells the other business assets for £7,000. His capital allowance computation for 2008-09 is:

Value brought forward	£10,000
Minus	
Disposal proceeds (£7,000 + £2,000)	£ 9,000
Balancing allowance (box 32)	£ 1,000

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal.