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**40 Property business deductions**

The Schedule contains provision about property business deductions.

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## SCHEDULE TO CLAUSE 40

### PROPERTY BUSINESS DEDUCTIONS

#### PART 1

##### DEDUCTION FOR REPLACEMENT OF FURNITURE ETC

- 1 In Chapter 5 of Part 3 of ITTOIA 2005 (property income), after section 311 insert –

*“Deduction for replacement of furniture etc*

#### **311A Replacement furniture relief**

- (1) - This section applies if conditions A to D are met.
- (2) - Condition A is that a person (“P”) carries on a property business in relation to land which consists of or includes a dwelling-house.
- (3) - Condition B is that –
  - (a) - a domestic item has been provided for use in the dwelling-house (“the old item”),
  - (b) - P incurs expenditure on a domestic item for use in the dwelling-house (“the new item”),
  - (c) - the new item is provided solely for the use of the lessee, and
  - (d) - the new item replaces the old item.
- (4) - Condition C is that a deduction for the expenditure is not prohibited by the wholly and exclusively rule but would otherwise be prohibited by the capital prohibition rule (see subsection (13)).
- (5) - Condition D is that no allowance under CAA 2001 may be claimed in respect of the expenditure.
- (6) - In calculating the profits of the business, a deduction for the expenditure is allowed. -  
But this is subject to subsections (7) and (8). -
- (7) No deduction is allowed for expenditure in a tax year if –
  - (a) - the business consists of or includes the commercial letting of furnished holiday accommodation (see Chapter 6), and
  - (b) - the dwelling-house constitutes some or all of that accommodation for the tax year.
- (8) - No deduction is allowed if –
  - (a) - the person derives rent-a-room receipts from the dwelling-house, and

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(b) - those receipts are brought into account in calculating the profits of the business in accordance with section 793 or 797 (rent-a-room relief).

(9) - The basic amount of the deduction is as follows –

(a) - where the new item is substantially the same as the old item, the deduction is equal to the expenditure incurred by P on the new item;

(b) - where the new item is not substantially the same as the old item, the deduction is equal to so much of the expenditure incurred by P on the new item as does not exceed the expenditure which P would have incurred on an item which is substantially the same as the old item.

Subsections (10) and (11) provide for variations in the amount of the deduction in certain cases.

(10) - If P incurs incidental expenditure of a capital nature in connection with the disposal of the old item or the purchase of the new item, the deduction is increased by the amount of the incidental expenditure.

(11) - If the old item is disposed of, the deduction is reduced by the amount of any consideration in money or money's worth which P or a person connected with P receives, or is entitled to receive, in respect of the disposal.

(12) - In this section, "domestic item" means an item for domestic use (such as furniture, furnishings, household appliances and kitchenware), and does not include anything that is a fixture.

"Fixture" –

(a) - means any plant or machinery that is so installed or otherwise fixed in or to a dwelling-house as to become, in law, part of that dwelling-house, and

(b) - includes any boiler or water-filled radiator installed in a dwelling-house as part of a space or water heating system.

"Plant or machinery" here has the same meaning as in Part 2 of CAA 2001.

(13) - In this section –

"the capital prohibition rule" means the rule in section 33 (capital expenditure), as applied by section 272, and

"the wholly and exclusively rule" means the rule in section 34 (expenses not wholly and exclusively for trade and unconnected losses), as applied by section 272."

2 - In Chapter 5 of Part 4 of CTA 2009 (property income), after section 250 insert –

*"Deduction for replacement of furniture etc*

#### **250A Replacement furniture relief**

(1) - This section applies if conditions A to D are met.

(2) - Condition A is that a company ("C") carries on a property business in relation to land which consists of or includes a dwelling-house.

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- (3) Condition B is that –
- (a) - a domestic item has been provided for use in the dwelling-house (“the old item”),
  - (b) - C incurs expenditure on a domestic item for use in the dwelling-house (“the new item”),
  - (c) - the new item is provided solely for the use of the lessee, and
  - (d) - the new item replaces the old item.
- (4) - Condition C is that a deduction for the expenditure is not prohibited by the wholly and exclusively rule but would otherwise be prohibited by the capital prohibition rule (see subsection (12)).
- (5) - Condition D is that no allowance under CAA 2001 may be claimed in respect of the expenditure.
- (6) - In calculating the profits of the business, a deduction for the expenditure is allowed.
- (7) - But no deduction is allowed for expenditure in an accounting period if –
- (a) - the business consists of or includes the commercial letting of furnished holiday accommodation (see Chapter 6), and
  - (b) - the dwelling-house constitutes some or all of that accommodation for the accounting period.
- (8) - The basic amount of the deduction is as follows –
- (a) - where the new item is substantially the same as the old item, the deduction is equal to the expenditure incurred by C on the new item;
  - (b) - where the new item is not substantially the same as the old item, the deduction is equal to so much of the expenditure incurred by C on the new item as does not exceed the expenditure which C would have incurred on an item which is substantially the same as the old item.

Subsections (9) and (10) provide for variations in the amount of the deduction in certain cases.

- (9) - If C incurs incidental expenditure of a capital nature in connection with the disposal of the old item or the purchase of the new item, the deduction is increased by the amount of the incidental expenditure.
- (10) - If the old item is disposed of, the deduction is reduced by the amount of any consideration in money or money’s worth which C or a person connected with C receives, or is entitled to receive, in respect of the disposal.
- (11) - In this section, “domestic item” means an item for domestic use (such as furniture, furnishings, household appliances and kitchenware), and does not include anything that is a fixture.
- “Fixture” –
- (a) - means any plant or machinery that is so installed or otherwise fixed in or to a dwelling-house as to become, in law, part of that dwelling-house, and
  - (b) - includes any boiler or water-filled radiator installed in a dwelling-house as part of a space or water heating system.

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“Plant or machinery” here has the same meaning as in Part 2 of CAA - 2001.

(12) - In this section –

“the capital prohibition rule” means the rule in section 53 (capital expenditure), as applied by section 210, and

“the wholly and exclusively rule” means the rule in section 54 (expenses not wholly and exclusively for trade and unconnected losses), as applied by section 210.”

3 - In section 41 of TCGA 1992 (restriction of losses by reference to capital allowances and renewals allowances), in subsection (4), after paragraph (a) insert –

“(aa) - any deduction under section 311A of ITTOIA 2005 or section 250A of CTA 2009 (replacement furniture relief),”.

4 - In section 308 of ITTOIA 2005 (furnished lettings), in subsection (1)(b), after “expenses” insert “of a revenue nature”.

5 - In section 322 of ITTOIA 2005 (commercial letting of furnished holiday accommodation), before paragraph (a) in subsections (2) and (2A) insert –

“(za) section 311A (replacement furniture relief: see subsection (7)),”.

6 - In section 248 of CTA 2009 (furnished lettings), in subsection (1)(b), after “expenses” insert “of a revenue nature”.

7 - In section 264 of CTA 2009 (commercial letting of furnished holiday accommodation), before paragraph (a) in subsections (2) and (2A) insert –

“(za) section 250A (replacement furniture relief: see subsection (7)),”.

## PART 2

### REPEAL OF WEAR AND TEAR ALLOWANCE

8 - In ITTOIA 2005 –

(a) - omit sections 308A to 308C and the italic heading before section 308A (wear and tear allowance), and

(b) - in section 327 (capital allowances and loss relief: UK property business), in subsection (2), omit paragraph (c) and the “or” before that paragraph.

9 - In CTA 2009 –

(a) - omit sections 248A to 248C of CTA 2009 and the italic heading before section 248A (wear and tear allowance), and

(b) - in section 269 (capital allowances and loss relief: UK property business), in subsection (2), omit paragraph (c) and the “or” before that paragraph.

## PART 3

### REPEAL OF RENEWALS ALLOWANCE FOR PROPERTY BUSINESSES

10 - In section 272 of ITTOIA 2005 and section 210 of CTA 2009 (profits of a property business: application of trading income rules), in subsection (2),

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omit the entry in the table relating to section 68 (replacement and alteration of trade tools).

PART 4

COMMENCEMENT

- 11 (1) -The amendments made by Parts 1 and 3 of this Schedule have effect in relation to expenditure incurred on or after the date in sub-paragraph (2).
- (2) -The date is –
- (a) - for corporation tax purposes, 1 April 2016, and
  - (b) - for income tax purposes, 6 April 2016.
- 12 (1) -The amendments made by paragraph 8 of Part 2 of this Schedule have effect for the tax year 2016-17 and subsequent tax years.
- (2) -The amendments made by paragraph 9 of Part 2 of this Schedule have effect in relation to accounting periods beginning on or after 1 April 2016.
- (3) -Sub-paragraph (4) applies where a company has an accounting period beginning before 1 April 2016 and ending on or after that date (“the straddling period”).
- (4) -For the purposes of paragraph 9 of Part 2 and sub-paragraph (2) –
- (a) - so much of the straddling period as falls before 1 April 2016, and so much of that period as falls on or after that date, are treated as separate accounting periods, and
  - (b) - any amounts brought into account for the purposes of calculating for corporation tax purposes the profits of a property business for the straddling period are apportioned to the two separate accounting periods in accordance with section 1172 of CTA 2010 (time basis) or, if that method produces a result that is unjust or unreasonable, on a just and reasonable basis.