

Explanatory Note

Clause 40 and Schedule: Property business deductions

Summary

1. This measure introduces a new deduction for capital expenditure incurred by a lessor on replacing furnishings, appliances and kitchenware provided for the use of a lessee in a dwelling-house. The deduction has effect for expenditure incurred on or after 6 April 2016 for income tax and 1 April 2016 for corporation tax. The measure also repeals the wear and tear allowance and the renewals allowance for property businesses.

Details of the clause and Schedule

Part 1: Deduction for replacement of furniture etc

2. Paragraph 1 introduces new Section 311A to Income Tax (Trading and Other Income) Act (ITTOIA) 2005.
3. Subsection 1 provides that new Section 311A of ITTOIA 2005 applies if conditions A to D are met.
4. Subsections 2 to 5 set out conditions A to D:
 - Condition A is that a person ("P") carries on a property business that includes a dwelling-house.
 - Condition B is that P incurs expenditure on a replacement domestic item provided solely for the lessee for use in the dwelling-house.
 - Condition C is that the expenditure is of a capital nature and is incurred wholly and exclusively for the purposes of the property business.
 - Condition D is that no capital allowances are available in respect of the expenditure.
5. Subsection 6 provides for a deduction to be given for the expenditure when calculating the profits of the property business.
6. Subsection 7 prohibits a deduction if the dwelling-house is qualifying furnished holiday accommodation within Chapter 6 of Part 3 of ITTOIA 2005.
7. Subsection 8 prohibits a deduction if rent-a-room relief is claimed in respect of the dwelling-

house.

8. Subsection 9 provides that the amount of the deduction is the expenditure incurred on the replacement item, except where it is not substantially the same as the old item. Where the replacement item is not substantially the same as the old item, the deduction is limited to the amount of the expenditure that would have been incurred on an item that is substantially the same.
9. Subsection 10 increases the deduction by any incidental capital expenditure incurred on disposing of the old item or purchasing the new item.
10. Subsection 11 reduces the deduction by any disposal proceeds that P is entitled to receive for the old item, including where the proceeds are given in money's worth or where the proceeds are received by a person connected with P.
11. Subsection 12 defines domestic item as an item for domestic use, including furniture, furnishings, household appliances and kitchenware, but excluding fixtures.
12. Paragraph 2 introduces new Section 250A to Corporation Tax Act (CTA) 2009.
13. Subsection 1 provides that new Section 250A of CTA 2009 applies if conditions A to D are met.
14. Subsections 2 to 5 set out conditions A to D:
 - Condition A is that a company ("C") carries on a property business that includes a dwelling-house.
 - Condition B is that C incurs expenditure on a replacement domestic item provided solely for the lessee for use in the dwelling-house.
 - Condition C is that the expenditure is of a capital nature and is incurred wholly and exclusively for the purposes of the property business.
 - Condition D is that no capital allowances are available in respect of the expenditure.
15. Subsection 6 provides for a deduction to be given for the expenditure when calculating the profits of the property business.
16. Subsection 7 prohibits a deduction if the dwelling-house is qualifying furnished holiday accommodation within Chapter 6 of Part 4 of CTA 2009.
17. Subsection 8 provides that the amount of the deduction is the expenditure incurred on the replacement item, except where it is not substantially the same as the old item. Where the replacement item is not substantially the same as the old item, the deduction is limited to the amount of the expenditure that would have been incurred on an item that is substantially the same.
18. Subsection 9 increases the deduction by any incidental capital expenditure incurred on disposing of the old item or purchasing the new item.
19. Subsection 10 reduces the deduction by any disposal proceeds that C is entitled to receive for the old item, including where the proceeds are given in money's worth or where the proceeds are received by a person connected with C.

20. Subsection 11 defines domestic item as an item for domestic use, including furniture, furnishings, household appliances and kitchenware, but excluding fixtures.
21. Paragraph 3 restricts capital losses that arise on replacement items by providing that deductions under section 311A of ITTOIA 2005 and section 250 of CTA 2009 are a capital allowance for the purpose of section 41 of Taxation of Chargeable Gains Act 1992.
22. Paragraph 4 clarifies that in subsection (1)(b) of section 308 of ITTOIA 2005, the expenses allowable in connection with the provision of furniture must be of a revenue nature.
23. Paragraph 5 inserts section 311A of ITTOIA 2005 into the list of provisions in section 322 of ITTOIA 2005 for which it matters whether a UK or overseas property business consists of or includes the commercial letting of furnished holiday accommodation.
24. Paragraph 6 clarifies that in subsection (1)(b) of section 248 of CTA 2009, the expenses allowable in connection with the provision of furniture must be of a revenue nature.
25. Paragraph 7 inserts section 250A of CTA 2009 into the list of provisions in section 264 of CTA 2009 for which it matters whether a UK or overseas property business consists of or includes the commercial letting of furnished holiday accommodation

Part 2: Repeal of wear and tear allowance

26. Paragraphs 8 and 9 repeal the wear and tear allowance provisions in ITTOIA 2005 and CTA 2009 respectively.

Part 3: Repeal of renewals allowance for property businesses

27. Paragraph 10 repeals the renewals allowance in section 68 of both ITTOIA 2005 and CTA 2009, by removing it from the list of trading income provisions that apply to property businesses.

Part 4: Commencement

28. Paragraph 11 provides that the new deduction for the replacement of furniture in Part 1 applies in relation to expenditure incurred on or after 1 April 2016 for corporation tax and on or after 6 April 2016 for income tax. It also provides that the renewals allowance is repealed for property businesses for expenditure incurred on or after 1 April 2016 for corporation tax and on or after 6 April 2016 for income tax.
29. Sub-paragraph 1 of paragraph 12 repeals the wear and tear allowance for income tax purposes for the tax year 2016-17 onwards.
30. Sub-paragraph 2 repeals the wear and tear allowance for corporation tax purposes for accounting periods beginning on or after 1 April 2016.
31. Sub-paragraphs 3 and 4 provide for accounting periods that begin before 1 April 2016 but end after that date. The accounting period is treated as if it were two separate accounting periods for the purpose of sub-paragraph 2. The profits of the property business are apportioned between the two notional accounting periods on a time basis, unless that produces an unjust or unreasonable result.

Background note

32. The measure has been introduced to give relief for the cost of replacing furnishings to a wider range of property businesses as well as a more consistent and fairer way of calculating taxable profits.
33. This measure was announced at Summer Budget 2015. A consultation was held from 17 July 2015 to 9 October 2015.
34. HM Revenue & Customs (HMRC) has published a summary of responses to the consultation today.
35. If you have any questions about this change, or comments on the legislation, please contact Megan Shaw on 03000 585628 (email: wearandtear.replacement@hmrc.gsi.gov.uk)