



## NEW FOR OLD - THE END OF THE RENEWALS ALLOWANCE

The tax legislation provides for a deduction for the cost of renewing “trade tools” (see section 68 ITTOIA 2005). The legislation is considered to refer only to small items such as hammers, chisels and so on, but by concession the relief has been extended to any items of plant and machinery.

The allowance works on the basis that you cannot have a deduction for the first purchase of an item of plant, so when fitting out a new rental property, there is no deduction for buying, say, a cooker. When the cooker needs replacing, however, the cost of the replacement can be claimed as a “renewal”. Any sales proceeds from the old cooker are

deducted, and the amount claimed must be adjusted to reflect any element of improvement of the new cooker over the old cooker.

The renewals allowance applies to any trader, but it is particularly useful for landlords of residential accommodation. This is because, unlike commercial landlords and ordinary trading businesses, landlords of residential accommodation cannot claim capital allowances on plant and machinery installed in the accommodation.

The landlord of a furnished property currently has a choice: he can claim the renewals allowance, or he can claim a “wear and tear” allowance calculated as 10% of the rent he receives. In some cases the 10% wear and tear allowance works out as the better choice, but there are other cases where the renewals allowance provides a better result. Whichever method is chosen has to be applied to all the furnished lettings owned by the landlord in question – one cannot pick and choose between different properties.

HMRC have announced that from April 2013, the renewals allowance will no longer be available, except for the strict statutory allowance for “trade tools” which is unlikely to be much help for landlords.

The only relief available to residential landlords will be the wear and tear allowance, and this can only be claimed for fully furnished properties, so landlords of unfurnished residential accommodation will not be able to claim any relief at all for replacing such items as cookers, sinks, baths, and so on.

Commercial landlords can claim capital allowances on plant they install, but even for them there is bad news – from April 2012, a year before the renewals allowance is withdrawn, the rates of capital allowances are all being reduced.

The 100% Annual Investment Allowance will reduce from £100,000 per year to £25,000 per year, and the rates at which any remaining plant is written down will reduce from 20% to 18% for normal plant, and from 10% to 8% for plant that is “integral” to a building, such as a heating systems and water or electrical systems.

Any landlords who are currently using the renewals allowance need to consider whether they are going to buy any replacements that will become due in the near future before April 2013, in order to claim the renewals allowance while they still can.

Commercial landlords who claim capital allowances need to consider whether the reduced £25,000 Annual Investment Allowance will be sufficient to cover their expenditure in the 2012/13 tax year, or whether they should seek to bring some forward to before April in order to make the most of the final year of the £100,000 allowance. A word of warning for corporate landlords or partnerships, though, who may have a different year end to individual landlords whose accounts are made up to 5 April each year – if your accounting period straddles 1 April 2012, you are already into the transitional rules for the reduction of the annual investment allowance, and you should seek your accountant’s advice on how much allowance you can claim for expenditure in the current accounting period.

[This article by James Bailey first appeared in Tax Insider magazine \(www.taxinsider.co.uk\)](http://www.taxinsider.co.uk)