



HMRC CONSULTATION ON REFORM TO 'WEAR AND TEAR ALLOWANCE' FOR LANDLORDS

ARLA
Arbon House,
 6 Tournament Court,
 Edgehill Drive, Warwick,
 Warwickshire, **CV34 6LG**

CONTEXT:

In the Summer Budget 2015 the Government confirmed its intention to introduce measures intended to improve how landlord's businesses are taxed. The new measures are designed to provide consistency and fairness in the taxation of rented properties.

THE CHANGES:

The current 10% Wear and Tear Allowance which allows landlords to reduce the tax they pay, regardless of whether they replace the furnishings in their property, will be replaced. From April 2016 landlords will only be allowed to deduct the costs they actually incur for replacing furnishings in their rental properties.

ELIGIBILITY:

All landlords will be eligible for the relief respective of whether they let their properties on an unfurnished, part furnished or fully furnished basis. However, Furnished Holiday Lets and commercial premises are excluded.

NOTE: The relief will only cover replacing existing furnishings – landlords cannot claim for the initial purchase of furnishings (i.e. when they buy a new property and furnish it for the first time).

HOW IT WILL WORK:

Landlords will be able to claim for the capital cost of replacing furniture, furnishings, appliances and kitchenware provided for the tenant's use; such as beds, wardrobes, tables, sofas, fridges, washing machines, carpets, curtains, cutlery and crockery.

However, if the landlord sells the item being replaced, the sale price of that item must be deducted from the purchase price of the replacement and the tax relief can only be claimed on the remainder.

Further, landlords cannot claim for 'improvements'. If the replacement item is an improvement on what was there before (i.e. a washing machine is replaced with a washer-dryer), then only the cost of a like-for-like replacement can be claimed.

INFLUENCE THE GOVERNMENT

Please respond to the consultation which closes on **9 October 2015**. Responses should be submitted to wearandtear.replacement@hmrc.gsi.gov.uk

View ARLA's response here
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NOTE: Fixtures integral to the building (i.e. baths, toilets and boilers) that are not normally removed by the owner if the property was sold are not included.

THE IMPACT

Landlords will no longer need to decide whether their property is sufficiently furnished to make a claim as the relief applies to all rented properties no matter the level of furnishing.

With the current 10% allowance, the higher the rent, the larger the tax relief. In some areas of the country, 10% is not sufficient to cover the actual costs incurred. The proposal will ensure landlords can claim their actual costs and provide a level-playing field for landlords wherever they operate in the country.

However, there will be a significant administrative and record keeping burden placed on landlords in order to claim the tax relief.

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