



## BY EMAIL

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Dear Megan

## Association of Accounting Technicians response to HMRC Consultation “Replacing Wear and Tear Allowance with Tax Relief for Replacing Furnishings in Let Residential Dwelling-Houses”

The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the HMRC consultation “Replacing Wear and Tear Allowance with Tax Relief for Replacing Furnishings in Let Residential Dwelling-Houses”, released on 17 July 2015.

AAT is submitting this response on behalf of our membership and from the wider public benefit of achieving sound and effective administration of taxes.

AAT has made comment in order to add value or highlight aspects that need to be considered further.

AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.

Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our operationally skilled members in practice.

### Overview of the status quo

The 10% wear and tear allowance (the allowance) in respect of the letting of residential property has been a long-standing feature of the UK’s tax landscape both informally as an extra-statutory concession<sup>1</sup> and formally since the 2011/12 tax year<sup>2</sup>.

The allowance is a crude proxy for the actual expenditure incurred by a landlord and it is one which is available even in tax years where there has been no actual expenditure in respect of items covered by the allowance.

Its main feature is that it is a simple, easy to understand and an administratively easy way to provide for the costs associated with the renewal of furniture, soft furnishings and domestic appliances from a taxation perspective.

There would be little disputing that in the majority of instances those who make a claim for the allowance will benefit from a taxation perspective by virtue of the fact that their claim is for an amount of notional expenditure which is in excess of the actual expenditure costs incurred in a given tax year.

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<sup>1</sup> ESC B47

<sup>2</sup> ITTOIA/S308A, CTA09/S248A

The allowance is not available to those who own and rent out property that is either part furnished or unfurnished. Furthermore, it is not available to those who operate 'furnished holiday letting' businesses (FHLs) or who own and rent out commercial properties. Such businesses receive their tax relief through the Capital Allowances regime.

As part of this summer's budget the Chancellor announced as part of a number of measures to dampen down the buoyant buy-to-let market that the Government proposed to replace the allowance from the start of the next tax year with what could arguably be referred to as the re-introduction of the renewals basis:

*The "replacement furniture relief" will only apply to the replacement of furnishings (renewals basis). The initial cost of furnishing a property would not be included.*

## **AAT's Response to the consultation questions**

### Do you have any comments on the proposed scope of the new relief?

AAT considers that the scope of the proposed changes is appropriate.

It is AAT's view that there are other wider issues associated with the granting of tax relief on expenditure incurred in pursuit of the letting of properties such as tax relief on interest payments.

AAT considers that the proposed changes, as outlined in the consultation document, correctly target an area that has been subject to changes over the last few years and that they will hopefully bring fairness and clarity to this particular type of tax relief and at the same time resolve the "white goods problem" whereby landlords owning partly, or unfurnished, properties are unable claim tax relief, either on first purchase or renewal.

### Do you have any comments on the proposals for dealing with any disposal proceeds from the old asset that is being replaced or any improvement element of the replacement asset?

AAT notes that disposal proceeds for most second hand furnishings and appliances are normally very low, if not zero. As a consequence such items are likely to have either been thrown out or given to a charity.

As a result of the above the recording of such transactions, although not onerous, is unlikely to be followed.

While in its purest form the understanding of the concept of like-for-like is easy, in reality because of changes over time in manufacturing techniques, materials, styles and relative costs it becomes harder to be sure that expenditure is truly like-for-like in nature.

Historically the Identification of an improvement element in expenditure has proved to be difficult and AAT cannot see any reason to consider that it would be any the less problematic in the future. For all of the reasons set out in the preceding paragraph correctly identifying the line between renewal and improvement may be difficult.

AAT assumes that the example set out in 2.13 of the consultation document should have contained a reference to any disposal proceeds arising from the original disposal in order for it to accord with the principles in 2.12.

### Are there additional impacts on individuals or other businesses that are not covered in the table of impacts?

AAT does not consider there to be significant or substantial impacts.

## **Additional comments**

AAT notes that, while it is not covered by this consultation, of greater impact to owners of buy-to-let property will be the proposed changes to mortgage interest relief.

## About AAT

AAT is a professional accountancy body with over 49,500 full and fellow members and 82,400<sup>3</sup> student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

Thank you for the opportunity to respond to the consultation on Replacing Wear and Tear Allowance with Tax Relief for Replacing Furnishings in Let Residential Dwelling-Houses.

## Further information

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, Technical Manager, at [consultation@aat.org.uk](mailto:consultation@aat.org.uk) or Brian Palmer, Tax Policy Adviser, at [aat@palmerco.co.uk](mailto:aat@palmerco.co.uk)

Yours sincerely



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<sup>3</sup> Figures correct as at 30 Sept 2015