



HM Revenue  
& Customs

# Replacing Wear and Tear Allowance with Tax Relief for Replacing Furnishings in Let Residential Dwelling-Houses

**Consultation document**

Publication date: 17/07/2015

Closing date for comments: 09/10/2015

<b>Subject of this consultation:</b>	Following the announcement at Summer Budget 2015, consultation on the reform of the 'Wear and Tear Allowance' applicable to property businesses.
<b>Scope of this consultation:</b>	At the 2015 Summer Budget the Government confirmed its intention to consult on a measure intended to improve how residential property rental businesses are taxed. The measure is designed to improve the consistency and fairness in the taxation of residential property businesses.
<b>Who should read this:</b>	We would like to hear from businesses, individuals, tax advisers, professional bodies and any other interested parties involved in the letting of residential property
<b>Duration:</b>	The Consultation will run for 12 weeks from 17/07/2015 to 09/10/2015.
<b>Lead official:</b>	Megan Shaw CTIS HMRC
<b>How to respond or enquire about this consultation:</b>	Written responses should be submitted by 09/10/2015 to <a href="mailto:wearandtear.replacement@hmrc.gsi.gov.uk">wearandtear.replacement@hmrc.gsi.gov.uk</a> or by post to Megan Shaw, HM Revenue and Customs, CTIS, 3/64, 100 Parliament Street, London, SW1A 2BQ.
<b>Additional ways to be involved:</b>	Please contact Megan Shaw on the email address or address above for enquiries about the content or scope of the consultation, requests for hard copies, information about consultation events, etc. Megan can also be reached by phone on 03000 528462.  In order to reach people who would be affected by the issues under discussion in this consultation, we will seek to engage with organisations that represent landlords and letting agents, including the National Landlords Association, the Scottish Landlords Association, the Landlords Association of Northern Ireland, the Residential Landlords Association and the Association of Residential Letting Agents.
<b>After the consultation:</b>	A response document will be published later in the year. Draft legislation will be published in advance of Finance Bill 2016.
<b>Getting to this stage:</b>	None. This is an initial consultation on this measure.
<b>Previous engagement:</b>	None

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# 1. Introduction

## Background

- 1.1 Landlords (including company landlords) of fully furnished residential properties can elect to claim a tax relief for wear and tear on furnishings without necessarily incurring any cost. They can claim an annual allowance of 10 per cent of the rent received in the property business.
- 1.2 The Wear and Tear Allowance is not available to those property businesses that rent part furnished or unfurnished property.
- 1.3 The Wear and Tear Allowance gives relief even where expenditure is not incurred or where less expenditure is incurred than the relief given. The allowance is also limited to 10 per cent, even where the landlord incurs higher costs in that year.
- 1.4 The Wear and Tear Allowance is dependent on the amount of rental income received. This has the consequence that where rental income is higher the allowance is higher so that similar properties in different parts of the country will attract different levels of Allowance despite having incurred the same expenditure.

## 2. What we are proposing

### The proposals

2.1 The Government has announced that from April 2016 the Wear and Tear Allowance will be replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings in the property. This will give relief for capital expenditure to a wider range of property businesses as well as a more consistent and fairer way of calculating taxable profits.

2.2 The proposals will give greater consistency and fairness across the residential property letting sector and reduce the number of tax rules applying to the residential property sector. The proposals will apply from 6 April 2016 for income tax purposes and 1 April 2016 for corporation tax purposes.

### Scope of the new replacement furniture relief

2.3 The relief will apply to landlords of unfurnished, part furnished and furnished properties. The relief will not apply to 'furnished holiday letting' businesses (FHLs) and letting of commercial properties, because these businesses receive relief through the Capital Allowances regime.

2.4 The new replacement furniture relief will only apply to the replacement of furnishings. The initial cost of furnishing a property would not be included.

2.5 Under the new replacement furniture relief landlords of all non-FHL residential dwelling houses will be able to claim a deduction for the capital cost of replacing furniture, furnishings, appliances and kitchenware provided for the tenant's use in the dwelling house, such as:

- movable furniture or furnishings, such as beds or suites,
- televisions,
- fridges and freezers,
- carpets and floor-coverings,
- curtains,
- linen,
- crockery or cutlery,
- beds and other furniture

2.6 We believe that limiting the scope of the allowance to items that are provided for the tenant's use in the dwelling house that is being let removes any opportunity to claim the cost of larger items used for the purpose of the property rental business, for example, cars.

2.7 Fixtures integral to the building that are not normally removed by the owner if the property was sold would not be included because the replacement cost of

these would, as now, be a deductible expense as a repair to the property itself. Fixtures include items such as:

- baths,
- washbasins,
- toilets,
- boilers,
- fitted kitchen units

2.8 Landlords will no longer need to be concerned with whether the item being replaced is a fixture (and therefore a repair to the property) or not. In either case, the cost can be deducted from their rental income to arrive at the profits of their property rental business.

2.9 Landlords will no longer need to decide whether their property is sufficiently furnished to claim the new replacement furniture relief, as they had to when claiming the Wear and Tear Allowance. This is because the new relief will apply to all landlords of residential dwelling houses, no matter what the level of furnishing.

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

### **Amount of the relief**

2.11 The new replacement furniture relief will be for expenses that are actually incurred by landlords, rather than an arbitrary percentage. The value of the relief will no longer be dependent on the location that the property happens to be in and the local rates of rent. It will provide a better incentive for landlords to actually maintain the furnishings in their property. They will not be able to claim any relief without actual expenditure.

2.12 To ensure that the relief mirrors, as closely as possible, the landlord's economic position, the new replacement furniture relief will give relief for the cost of the replacement asset, less any proceeds received from the old asset that is being replaced.

2.13 In line with the policy that relief for the initial cost of assets will not be given, any element of the replacement asset that represents an improvement would be excluded from the new replacement furniture relief. The replacement will include an improvement if the new asset can do more or if it can be used to do something that it could not do before. For example, replacing a washing machine with a washer-dryer is an improvement. If the washer dryer cost £600, and the cost of buying a new washing machine like the old one would have been £400 then the replacement furniture relief will be £400 (£600 less the £200 that represents the difference in cost between a washing machine and the washer dryer).

**2.14 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?**

### 3. Assessment of Impacts

#### Summary of Impacts

Exchequer impact (£m)	2015-16	2016-17	2017-18	2018-19	2019-20
		0	+205	+165	+165
<b>Economic impact</b>	The measure is not expected to have any significant economic impacts.				
<b>Impact on individuals and households</b>	This change will create an additional administrative burden for individual landlords that currently claim the wear and tear allowance as they will now need to keep a record of their actual expenditure. This is estimated to be around 750,000 individuals (and households), and the impact on affected individuals (and households) is anticipated to be negligible given that they currently keep records of other expenses such as repair costs.				
<b>Equalities impacts</b>	There are no expected impacts on the equality of groups sharing protected characteristics.				
<b>Impact on businesses and Civil Society Organisations</b>	The impact on individuals is explained above. There is an additional impact on partnerships and companies that currently claim the wear and tear allowance as they will now need to keep a record of their actual expenditure. We estimate that will create an additional administrative burden for fewer than 50,000 partnerships and companies. The annual and on-going costs to these businesses are expected to be negligible.				
<b>Impact on HMRC or other public sector delivery organisations</b>	The additional costs for HMRC for implementing this change are estimated to be in the region of £100,000.				
<b>Other impacts</b>	Other impacts have been considered and none have been identified.				

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



## 4. Summary of Consultation Questions

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

**4.2 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?**

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

## 5. The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1 Setting out objectives and identifying options.
- Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3 Drafting legislation to effect the proposed change.
- Stage 4 Implementing and monitoring the change.
- Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

### How to respond

A summary of the questions in this consultation is included at chapter 4.

Responses should be sent by 09/10/2015, by e-mail to [wearandtear.replacement@hmrc.gsi.gov.uk](mailto:wearandtear.replacement@hmrc.gsi.gov.uk) or by post to: Megan Shaw, HM Revenue and Customs, CTIS, 3/64, 100 Parliament Street, London, SW1A 2BQ.

Telephone enquiries 03000 528462 (from a text phone prefix this number with 18001).

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from [HMRC's GOV.UK pages](#). All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

### Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

### **Consultation Principles**

This consultation is being run in accordance with the Government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: <http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

Oliver Toop, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: [hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk](mailto:hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk)

Please do not send responses to the consultation to this address.