



## Capital Allowances: Balancing charges

Furnished Holiday Lettings (FHLs) owners are able to claim capital allowances in respect of furniture, fixtures, fittings and integral features. Property businesses that do not qualify as FHLs are unable to claim capital allowances, although reliefs are available for replacement moveable domestic items and for repairs to the property and the assets in it. In this factsheet we shall look at the capital allowances implications of abolishing the FHL regime.

### Background

In Budget 2024 it was announced that the FHL regime would be abolished from 6 April 2025. No further detail or draft legislation was published prior to the general election was announced, and the news of the general election added further uncertainty to the issue. Regardless of the uncertainty, it is worth considering the tax implications of abolishing FHL status so that we can plan for the eventualities. Capital allowances is an area that is full of uncertainty, but one where planning opportunities are available.

### Possible outcomes

It is unclear whether transitional measures will be introduced to address the following questions:

- Will relief be available for FHL owners who have unrelieved expenditure in their capital allowances pools?
- Will the abolition of FHL status mean that FHL owners will be subject to balancing charges?

### What is a balancing charge?

When a property ceases to qualify as an FHL, balancing allowances or charges must be calculated by comparing the market value of assets on which capital allowances were claimed with the tax written down value of those assets. If the market value exceeds the tax written down value, a balancing charge arises. As the annual investment allowances has been available for FHLs, it is likely that the tax written down value of the assets is £nil, so

a balancing charge equal to the assets' market value will arise.

Such a balancing charge is known as a 'dry' tax charge, in that tax is payable in a situation where no corresponding income has been received. Without transitional measures, considerable balancing charges will arise if FHL status is abolished.

As an aside, if the market value of an asset has increased and is now more than the capital allowances claimed, the balancing charge is restricted to the capital allowances actually claimed.

### What can FHL owners do now to lessen potential impacts?

As it is unclear whether transitional measures will be introduced to address the balancing charges, it is worth looking at the planning opportunities that are available now.

For instance, choosing not to claim all or some available capital allowances may be beneficial for some. For instance, a basic rate taxpayer could save 20% tax by claiming AIA in 2024/25, but a potential balancing charge in 2025/26 could result in them paying tax at 40% if they become a higher rate taxpayer in that tax year. If we remember that the abolition of FHL status is likely to prohibit the full deduction of loan interest costs (restricting those costs to a basic rate deduction), then a taxpayer being pushed into the higher rate band as in the above scenario becomes more likely.

Claims for capital allowances can be changed in an amended tax return provided it is submitted within 12 months of the original deadline.

Another planning point for FHL owners is to review asset purchases to ensure all available capital allowances claims have been made. This could potentially increase a future balancing charge, but it may be advantageous to some.