RESIDENTIAL LANDLORDS

ARE YOU AWARE OF THE TAX BENEFITS OF RENTING FURNITURE AND APPLIANCES?

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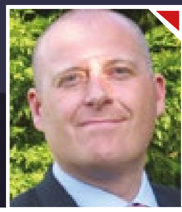

Traditionally, residential landlords would claim the 'Wear and Tear Allowance' when renting residential property – however this allowance was abolished as of April 2016 and replaced with a 'furniture replacements' allowance, which is a significantly less generous tax relief. This article looks at the changes made to this aspect of renting residential property, current position, and how renting furniture and appliances can result in a full tax deduction for the cost.

WHAT HAPPENED TO THE WEAR AND TEAR ALLOWANCE – AND WHY IS IT A PROBLEM?

The 'Wear and Tear Allowance' (WATA) was a generous tax relief available to residential landlords renting fully-furnished residential property (ie, not Holiday Lets) set at 10% of 'net' rents ('net' meaning gross rent less any utilities paid on the tenant's behalf).

The WATA covered 'non-fixed' items in a furnished residential property, ie sofas, beds, tables, chairs, etc.

The WATA was abolished in April 2016, after a Budget announcement in July 2015. Instead, residential landlords can now only claim for any replacement of ***existing*** items covered by the WATA.

This means that residential landlords buying furniture for the first time for a residential property will receive no tax deduction at all for the first-furnishing. For a HMO / multi-let property, especially, this can mean an important loss of tax relief if effectively furniture and appliances have to be paid for from after-tax income.

Residential landlords also can't claim capital allowances on furniture and appliances.

RENTING FURNITURE OFFERS A SIGNIFICANT TAX BENEFIT IN MANY CASES ...

The rental of furniture and appliances supplied in a residential property remains fully tax-deductible (for both companies and individuals).

This means that even for a first-furnishing of a property, there is a full tax deduction for the cost of furnishing the property.

As the company supplying furniture for rent to landlords can claim capital allowances on its own stock of furniture, such suppliers are able to build this into their pricing structure, with the benefit being that the landlord can get a sensible price on renting furniture and appliances as well as a full tax deduction.

BUT WON'T THAT BE RATHER EXPENSIVE – WHY SHOULD I CONSIDER THIS?

Many furniture rental suppliers offer surprisingly affordable rates, which reduce with the length of time that furniture is rented for. There are some key benefits to renting furniture and appliances rather than buying:

- **No capital outlay**

  Furniture and appliances are often paid for at the end of a property renovation and so can be an unwelcome large capital outlay just at the time of minimum cash flow. Some furniture suppliers even offer credit accounts for repeat / bulk business

- **Surprisingly cost-effective**

  Renting furniture and appliances is much like buying a new car on hire purchase. Like cars, furniture and appliances tend to depreciate in value – why is it OK to rent a car but not a business asset on which there is full tax deduction for the cost?

- **Convenience and flexibility**

  Once furniture is bought, it can be difficult to rectify any buying mistakes (eg, furniture isn't to the liking of the target tenant). Renting furniture means that changes can be made cost-effectively, and changes in fashions and tastes can be catered for more easily. And for appliances, the appliance supplier being responsible for repairs is one less headache and cost to deal with

- **Suits developers and landlords alike**

  Staging a property for sale, whether as a development property for re-sale or the sale of an existing rental property, will generally achieve a higher price if prospective buyers can see how a property would be used, by seeing the furniture in place on viewing – take a tip from the big boys like Barrett and Persimmon – staging a property works!

BUT I CAN BUY SECOND-HAND FURNITURE CHEAPLY – HOW CAN RENTING BE CHEAPER?

Obviously, the quality and new-ness of rented furniture from a reputable company is far better in most cases to second-hand or inferior-but-new furniture. Every landlord has a budget, but tenants these days are often very discerning, and so quality rented furniture can be the difference between a quick first-let or re-let, and a lengthy void that eats into profits. Clearly, the better the property, the better the standard of furniture and appliances needs to be.

SUMMARY…

From April 2016, residential landlords furnishing a property for the first time will receive no deduction at all for the ***initial*** furnishing cost. This means either that the cost of that initial furnishing is 20% or 40% (depending on tax bracket) more expensive as a result of this cost being effectively paid from after-tax income.

With the new mortgage interest relief restrictions, many landlords are keen to incur 'revenue' costs (deductible from income) rather than 'capital' costs, and renting furniture and appliances can make overall financial sense, now more than ever. As always, it pays to keep an open mind about how to run a property rental business. Renting business assets can make tax sense, preserve precious investment capital, and allow superior rents to be charged – which must be worthy of consideration.