



Flat Conversion Allowances

Under the Finance Act 2001, a new form of capital allowances was introduced on capital expenditure incurred on or after 11th May 2001. This allows for up to 100% tax relief for property owners, holding the relevant interest, incurring expenditure on converting and renovating parts of qualifying buildings in the UK into flats for the purposes of short term letting.

In order to qualify for the relief, there are certain conditions that need to be satisfied, a basic outline of which are as follows:-

Qualifying Expenditure

Qualifying expenditure for the purposes of the "flat conversion allowances" is that which meets the following requirements:-

- Converting part of a qualifying building into a qualifying flat.
- Renovating a flat in a qualifying building if the flat is, or will be, a qualifying flat.
- Repairs to a qualifying flat.
- The cost of providing a separate access to the qualifying flat.

Expenditure may include costs for associated works outside the direct boundary of the flat and also architect's and surveyor's fees.

However, not all expenditure will qualify and non-qualifying expenditure is defined as follows:-

- The acquisition of land or rights in or over land.
- The extension of a qualifying building (excluding forming a separate access to or from a qualifying flat).
- The development of land adjoining or adjacent to a qualifying building.
- The provision of furnishings or chattels.

Qualifying Flats

A qualifying flat means a flat in which the following requirements are met:-

- The flat must be in a qualifying building.
- The flat must be suitable for and held for short term letting (not more than 5 years) as a dwelling.
- Access to the flat must be gained without using part of the ground floor which is in business use.
- The flat must have no more than 4 rooms excluding bathroom, kitchen and hallways not exceeding 5m².
- The flat must not be (or have been) created or renovated as part of a scheme involved in the creation of one or more high value flats.
- The flat must not be let to a person connected with the person who incurred expenditure on its conversion or renovation.
- The flat must not be defined as a high value flat, which will differ between the Greater London area and elsewhere, with rental limits as detailed in the table below:

Number of rooms in flat	Flats in Greater London	Flats elsewhere
1 or 2 rooms	£350 per week	£150 per week
3 rooms	£425 per week	£225 per week
4 rooms	£480 per week	£300 per week

For further information or a capital allowances assessment without obligation

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Qualifying Buildings

Generally, the upper floors of the building must have been originally constructed for the purposes of residential use.

A qualifying building means a building in which the following requirements are met:-

- All or most of the ground floor must be authorised for business use, which includes shops, financial and professional services, food and drink premises, medical or health services, or other business premises – offices, industrial etc which can be carried out in a residential area.
- The building should be no more than 4 storeys above ground floor.
- Construction of the building must have been completed on or before 1st January 1980. However, where a building has been extended after that date, “flat conversion allowances” may still be available on relevant expenditure providing the extension was completed prior to 1st January 2001.

Relevant Interest

A person must have the relevant interest, whether freehold or leasehold, at the time that they incur the expenditure on the conversion or renovation. However, as long as they are entitled to an interest in the flat as a result of the conversion or renovation works, a person can claim flat conversion allowances even if they did not have the relevant interest at the time that the expenditure was incurred.

Allowances

Providing the above conditions are met, relief may be given as an initial allowance of 100% for the period during which the expenditure was incurred. Alternatively, the allowances may be claimed only in part at 25% per annum on a straight line basis.

Balancing Adjustments

A balancing adjustment will be made if a balancing event occurs within 7 years of the flat first being suitable for letting as a dwelling. Balancing events will occur in the event of the transfer of the relevant interest in a flat to another person. This is also the case if a long lease is granted for a capital sum or if the flat is no longer let.

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The information contained in the DATASHEET is believed to be correct, but there may be errors or omissions for which PJB cannot be responsible. It is therefore essential to take advice on specific issues.