



Hotel Allowances

Industrial Buildings Allowances are available on qualifying hotels when capital expenditure is incurred on the construction of a new hotel building, or alterations and/or refurbishment to an existing hotel building and they are also available to the purchaser of an existing hotel. However, any expenditure incurred before 12 April 1978 will not qualify for Industrial Buildings Allowances.

Qualification

In order to qualify for Industrial Buildings Allowances (IBAs) the hotel must comply with the following:-

- The accommodation must be in a building of a permanent nature.
- The hotel must be open for a period of 4 months during April to October (inclusive).
- The hotel must have at least 10 letting bedrooms, and the sleeping accommodation must consist wholly or mainly of letting rooms available for letting to the public and not normally in the same occupation for more than one month.
- While open the hotel services must include the provision of breakfast, an evening meal, the cleaning of rooms and making of beds.

The hotel may consist of more than one building and amenities such as swimming pools, tennis courts, car parks etc, also qualify as part of the hotel, even if non-residents are allowed to use them.

Basis of Claiming Hotel Allowances

The qualifying expenditure for hotel allowances is generally the construction cost of the building. The cost of land is excluded and the cost of plant and machinery should usually be claimed under separate provisions of the legislation. Additionally, the cost of converting an existing building into a hotel will qualify. Also, should a hotel be extended from fewer to 10 or more rooms, the extension costs as well as the original construction cost will qualify, provided that the expenditure was incurred after 11 April 1978.

Where part of a building does not qualify, such as proprietor's accommodation, hotel allowances are still available on that non-qualifying part providing its cost does not exceed 25% of the whole (10% prior to 16th March 1983). If proprietor's accommodation is separate from the hotel building it would not qualify at all, even if less than 25% of the total.

The allowances are available to the holder of the "relevant interest", that being the interest that the person who incurred the qualifying construction expenditure had when the expenditure was incurred.

Should a long lease (lesser interest) be granted out of the "relevant interest", the lessor and lessee can enter into an election, under Section 290 of Capital Allowances Act 2001, to treat the transaction as the sale of the relevant interest. The election must be made within two years of the lease taking effect, and cannot be made between connected persons. The election will be a balancing event on the lessor.

Hotel allowances are available at 4% per annum (i.e. over 25 years), and will continue during periods of temporary disuse, up to a maximum of two years from the end of the chargeable period in which the temporary disuse started, after which writing-down allowances will cease.

Unlike other balancing events for industrial buildings, should a hotel be in non-qualifying use for a period of two years, the relevant interest is deemed to be sold and a balancing adjustment must be made based on the open market value. There would be no further adjustment if the property is subsequently sold.

Hotel Allowances on the Acquisition of Qualifying Buildings

The qualifying expenditure for hotel allowances is the seller's residue of expenditure after sale. This generally equates to the vendor's residue of expenditure added to which (or deducted from) is any balancing allowance or charge.

In cases where properties are sold at a profit and have always been in qualifying use, the residue after sale will generally equate to the original construction cost of the building. If no residue of expenditure has been brought into account by a vendor, an estimate of the original cost of constructing the building will have to be prepared.

The purchaser of a hotel already in use would be entitled to hotel allowances on the residue of expenditure after sale, noted above, and writing it down over the period from the date of purchase until the expiry of 25 years from the date the building first came into use.

For further information or a capital allowances assessment without obligation

Tel: +44 (0)20 8416 0077 or Email: mail@pjb.com

www.pjb.com