Landlords: dealing with capital expenditure under the cash basis

From 2017/18 onwards, the cash basis is the default basis for landlords with rental profits of less than £150,000 who meet the qualifying conditions. The extension of the cash basis to landlords is one of the simplification measures ahead of the introduction of digital recording and reporting under Making Tax Digital. The rules for the treatment of capital expenditure under the cash basis are also being simplified from 2017/18 onwards and the new rules will apply both to landlords brought within the cash basis from that date and to traders operating the cash basis.

Accrual basis treatment v cash basis treatment

Under the accruals basis, capital expenditure is not deducted when computing profits – only revenue expenditure is eligible for deduction. Relief for capital expenditure is given by capital allowances.

Under the cash basis, capital allowances cannot be claimed, with the exception of cars where the simplified expenses rules are not adopted. Instead, under the new rules, as long as the capital expenditure does not fall within the list of disallowed items, it is deducted in computing taxable profits. This approach provides immediate relief for capital expenditure against profits.

Disallowed items

Items that do not qualify for deduction in the computation of profits are capital expenditure that is incurred on or in connection with the acquisition or disposal of a business or part of a business.

Further, a deduction is not permitted for expenditure on an item of a capital nature which is incurred on or in connection with the provision, alteration or disposal of:

- any asset that is not a depreciating asset;
- any asset that is not acquired for use on a continuing basis in the trade;
- a car;
- land;
- a non-qualifying intangible asset, including education or training; or
- a financial asset.

A depreciating asset is one which within 20 years is either no longer of use as a business asset or has a value of ten per cent or less of its value at the time that the expenditure on it was originally incurred.

Example

Bill lets out two properties in 2017/18. His taxable profits are computed in accordance with the cash basis. During the year, he buys a car for £15,000 for use in the business, a computer costing £1,200, and a printer costing £50. He is able to deduct the cost of the computer and printer in computing his profits, but not the car. However, if he does not use simplified expenses, he can claim capital allowances in respect of the car.