



# Finance Act 2016

## 2016 CHAPTER 24

### PART 3

#### INCOME TAX AND CORPORATION TAX

##### *Property business deductions*

#### **73 Property business deductions: replacement of domestic items**

(1) In Chapter 5 of Part 3 of ITTOIA 2005 (property income), after section 311 insert—

##### *“Deduction for replacement of domestic items*

#### **311A Replacement domestic items relief**

- (1) This section applies if conditions A to D are met.
- (2) Condition A is that a person (“P”) carries on a property business in relation to land which consists of or includes a dwelling-house.
- (3) Condition B is that—
  - (a) a domestic item has been provided for use in the dwelling-house (“the old item”),
  - (b) P incurs expenditure on a domestic item for use in the dwelling-house (“the new item”),
  - (c) the new item is provided solely for the use of the lessee,
  - (d) the new item replaces the old item, and
  - (e) following that replacement, the old item is no longer available for use in the dwelling-house.
- (4) Condition C is that a deduction for the expenditure is not prohibited by the wholly and exclusively rule but would otherwise be prohibited by the capital expenditure rule (see subsection (15)).

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- (5) Condition D is that no allowance under CAA 2001 may be claimed in respect of the expenditure.
- (6) In calculating the profits of the business, a deduction for the expenditure is allowed. But this is subject to subsections (7) and (8).
- (7) No deduction is allowed for expenditure in a tax year if—
  - (a) the business consists of or includes the commercial letting of furnished holiday accommodation (see Chapter 6), and
  - (b) the dwelling-house constitutes some or all of that accommodation for the tax year.
- (8) No deduction is allowed for expenditure in a tax year if—
  - (a) the person has rent-a-room receipts in respect of the dwelling-house for the tax year, and
  - (b) section 793 or 797 (rent-a-room relief) applies in relation to those receipts.
- (9) The basic amount of the deduction is as follows—
  - (a) where the new item is the same or substantially the same as the old item, the deduction is equal to the expenditure incurred by P on the new item;
  - (b) where the new item is not the same or substantially the same as the old item, the deduction is equal to so much of the expenditure incurred by P on the new item as does not exceed the expenditure which P would have incurred on an item which is the same or substantially the same as the old item.

Subsections (10) to (13) make further provision about the calculation of the deduction in certain cases.
- (10) If P incurs incidental expenditure of a capital nature in connection with the disposal of the old item or the purchase of the new item, the deduction is increased by the amount of the incidental expenditure.
- (11) If the old item is disposed of in part-exchange for the new item—
  - (a) the expenditure incurred by P on the new item is treated as including an amount equal to the value of the old item, and
  - (b) the deduction is reduced by that amount.
- (12) If the old item is disposed of other than in part-exchange for the new item, the deduction is reduced by the amount or value of any consideration in money or money's worth which P or a person connected with P receives, or is entitled to receive, in respect of the disposal.
- (13) For the purposes of subsection (12), where the old item is disposed of together with other consideration, the consideration in respect of the disposal mentioned in that subsection is taken not to include the amount of, or an amount equal to the value of, that other consideration.
- (14) In this section, “domestic item” means an item for domestic use (such as furniture, furnishings, household appliances and kitchenware), and does not include anything that is a fixture.  
 “Fixture”—

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- (a) means any plant or machinery that is so installed or otherwise fixed in or to a dwelling-house as to become, in law, part of that dwelling-house, and
  - (b) includes any boiler or water-filled radiator installed in a dwelling-house as part of a space or water heating system.
- “Plant or machinery” here has the same meaning as in Part 2 of CAA 2001.

(15) In this section—

“the capital expenditure rule” means the rule in section 33 (capital expenditure), as applied by section 272;

“lessee” means the person who is entitled to the use of the dwelling-house under a lease or other arrangement under which a sum is payable in respect of the use of the dwelling-house;

“the wholly and exclusively rule” means the rule in section 34 (expenses not wholly and exclusively for trade and unconnected losses), as applied by section 272.”

(2) In Chapter 5 of Part 4 of CTA 2009 (property income), after section 250 insert—

*“Deduction for replacement of domestic items*

### **250A Replacement domestic items relief**

- (1) This section applies if conditions A to D are met.
- (2) Condition A is that a company (“C”) carries on a property business in relation to land which consists of or includes a dwelling-house.
- (3) Condition B is that—
  - (a) a domestic item has been provided for use in the dwelling-house (“the old item”),
  - (b) C incurs expenditure on a domestic item for use in the dwelling-house (“the new item”),
  - (c) the new item is provided solely for the use of the lessee,
  - (d) the new item replaces the old item, and
  - (e) following that replacement, the old item is no longer available for use in the dwelling-house.
- (4) Condition C is that a deduction for the expenditure is not prohibited by the wholly and exclusively rule but would otherwise be prohibited by the capital expenditure rule (see subsection (14)).
- (5) Condition D is that no allowance under CAA 2001 may be claimed in respect of the expenditure.
- (6) In calculating the profits of the business, a deduction for the expenditure is allowed.
- (7) But no deduction is allowed for expenditure in an accounting period if—
  - (a) the business consists of or includes the commercial letting of furnished holiday accommodation (see Chapter 6), and

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- (b) the dwelling-house constitutes some or all of that accommodation for the accounting period.

(8) The basic amount of the deduction is as follows—

- (a) where the new item is the same or substantially the same as the old item, the deduction is equal to the expenditure incurred by C on the new item;
- (b) where the new item is not the same or substantially the same as the old item, the deduction is equal to so much of the expenditure incurred by C on the new item as does not exceed the expenditure which C would have incurred on an item which is the same or substantially the same as the old item.

Subsections (9) to (12) make further provision about the calculation of the deduction in certain cases.

- (9) If C incurs incidental expenditure of a capital nature in connection with the disposal of the old item or the purchase of the new item, the deduction is increased by the amount of the incidental expenditure.
- (10) If the old item is disposed of in part-exchange for the new item—
  - (a) the expenditure incurred by C on the new item is treated as including an amount equal to the value of the old item, and
  - (b) the deduction is reduced by that amount.
- (11) If the old item is disposed of other than in part-exchange for the new item, the deduction is reduced by the amount or value of any consideration in money or money's worth which C or a person connected with C receives, or is entitled to receive, in respect of the disposal.
- (12) For the purposes of subsection (11), where the old item is disposed of together with other consideration, the consideration in respect of the disposal mentioned in that subsection is taken not to include the amount of, or an amount equal to the value of, that other consideration.
- (13) In this section, “domestic item” means an item for domestic use (such as furniture, furnishings, household appliances and kitchenware), and does not include anything that is a fixture.

“Fixture”—

- (a) means any plant or machinery that is so installed or otherwise fixed in or to a dwelling-house as to become, in law, part of that dwelling-house, and
- (b) includes any boiler or water-filled radiator installed in a dwelling-house as part of a space or water heating system.

“Plant or machinery” here has the same meaning as in Part 2 of CAA 2001.

(14) In this section—

“the capital expenditure rule” means the rule in section 53 (capital expenditure), as applied by section 210;

“lessee” means the person who is entitled to the use of the dwelling-house under a lease or other arrangement under which a sum is payable in respect of the use of the dwelling-house;

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“the wholly and exclusively rule” means the rule in section 54 (expenses not wholly and exclusively for trade and unconnected losses), as applied by section 210.”

- (3) In section 41 of TCGA 1992 (restriction of losses by reference to capital allowances and renewals allowances), in subsection (4), after paragraph (a) insert—
  - “(aa) any deduction under section 311A of ITTOIA 2005 or section 250A of CTA 2009 (replacement domestic items relief),”.
- (4) In section 308 of ITTOIA 2005 (furnished lettings), in subsection (1)(b), after “expenses” insert “ of a revenue nature ”.
- (5) In section 322 of ITTOIA 2005 (commercial letting of furnished holiday accommodation), after paragraph (za) in subsections (2) and (2A) insert—
  - “(zb) section 311A (replacement domestic items relief: see subsection (7)),”.
- (6) In section 248 of CTA 2009 (furnished lettings), in subsection (1)(b), after “expenses” insert “ of a revenue nature ”.
- (7) In section 264 of CTA 2009 (commercial letting of furnished holiday accommodation), before paragraph (a) in subsections (2) and (2A) insert—
  - “(za) section 250A (replacement domestic items relief: see subsection (7)),”.
- (8) The amendments made by this section have effect in relation to expenditure incurred on or after the date in subsection (9).
- (9) The date is—
  - (a) for corporation tax purposes, 1 April 2016, and
  - (b) for income tax purposes, 6 April 2016.

**Changes to legislation:**

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**Changes and effects yet to be applied to the whole Act associated Parts and Chapters:**

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- Sch. 19 para. 12(5)(b) inserted by [2017 c. 32 Sch. 14 para. 49\(2\)\(c\)](#)
- Sch. 19 para. 12(5)(a) word inserted by [2017 c. 32 Sch. 14 para. 49\(2\)\(b\)](#)
- Sch. 19 para. 51(8)(b) words inserted by [2017 c. 32 Sch. 14 para. 48\(2\)](#)
- Sch. 19 para. 53(1) words inserted by [2017 c. 32 Sch. 14 para. 48\(4\)\(a\)](#)
- Sch. 19 para. 53(1) words inserted by [2017 c. 32 Sch. 14 para. 48\(4\)\(b\)](#)
- Sch. 19 para. 12(5)(a) words renumbered as Sch. 19 para. 12(5)(a) by [2017 c. 32 Sch. 14 para. 49\(2\)\(a\)](#)
- Sch. 19 para. 58(1) words substituted by [2017 c. 32 Sch. 14 para. 48\(5\)](#)
- Sch. 20 para. 1(4)(e) inserted by [2021 c. 26 Sch. 27 para. 47\(2\)](#)
- Sch. 20 para. 3(3)(d) and word inserted by [2021 c. 26 Sch. 27 para. 47\(3\)\(b\)](#)
- Sch. 20 para. 5(5) inserted by [2021 c. 26 Sch. 27 para. 47\(5\)](#)
- Sch. 22 para. 2(4B) inserted by [2021 c. 26 Sch. 27 para. 48\(2\)\(c\)](#)
- Sch. 22 para. 3(4A) inserted by [2021 c. 26 Sch. 27 para. 48\(3\)](#)