ZEAL

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Tax Implications of Upgrading EPC Ratings for Holiday Let Owners

To bring properties in line with new minimum energy efficiency requirements or EPC ratings, owners will need to incur expenditure on improvements to their properties.

Improvements to properties are generally considered capital expenditure, not deductible for tax purposes against income tax or corporation tax.

The abolishment of the Furnished Holiday Let (FHL) legislation will further compound the impact on short-term let owners as capital allowances will no longer be available for qualifying capital expenditure on building improvements.

Zeal have considered below the main ways a property can be made more energy efficient and the tax implications for FHL owners.

Solar Panels

No tax relief will be available for the cost of adding solar panels (*claimable pre abolition of FHL tax regime from April 2025*).

Adding Insulation to Lofts or Walls

No tax relief will be available for the cost of adding thermal insulation (*claimable pre abolition of FHL tax regime from April 2025*).

Upgrading Windows to Double / Triple Glazing

The cost of upgrading windows is generally tax deductible as a revenue expense (repair).

Draft Proofing

Adding draft proofing is an improvement for tax purposes. The costs incurred will not be tax deductible.

Installing a Condenser Boiler

Upgrading to a condenser boiler is likely to be regarded as a significant improvement. No tax relief will be available for the cost of changing to a condenser boiler (*claimable pre abolition of FHL tax regime from April 2025*).

However, there is a concession that allows tax relief for improvements where the new asset is an improvement due to changes in technology advances. It is possible HMRC may accept the replacement of an existing boiler with a condenser boiler as a revenue cost (tax deductible).

It is important to be aware that if the cost of replacing the boiler is 50% more than the original cost of the existing boiler, it will be capital and not deductible against income or corporation tax.

Heat Pumps

Upgrading to a heat pump rather than a traditional boiler will be capital expenditure. No tax relief will be available for the cost of changing to a heat pump (*claimable pre abolition of FHL tax regime from April 2025*).

As above, replacing a boiler with a heat pump, could be regarded as a repair (subject to certain conditions).

Low Energy Light Bulbs

Tax relief will be available as a revenue expense for the cost of switching to low energy light bulbs.

Installing a Smart Meter of Heating Controls

No tax relief will be available for the cost of adding smart meters or controls (*claimable pre abolition of FHL tax regime from April 2025*).

Adding Under Floor Heating

No tax relief will be available for the cost of adding under floor heating (*claimable pre abolition of FHL tax regime from April 2025*).

EPC Certificate Fees

The cost of obtaining an EPC rating is tax deductible.

Tax Relief Against Capital Gains Tax

Expenditure that is capital and not deductible against income tax or corporation tax, **CAN** be tax deductible against Capital Gains Tax (CGT) when you sell the property. Expenditure that is allowed against income tax as a repair/revenue expense, **CAN'T** be deducted again against CGT when you sell.