



## Flat Conversion Allowances

Flat conversion allowances (FCAs) were introduced by Finance Act 2001. The intention was to encourage the conversion of empty or underused space above shops and other commercial premises to residential use. The scheme is sometimes referred to as “flats over the shop” (FOTS) and provides an allowance equal to 100% of the qualifying expenditure.

In order to successfully claim FCAs the claimant must incur **qualifying expenditure** in respect of a **qualifying flat** and hold the **relevant interest** in the flat. However, there are a number of conditions that must be satisfied for entitlement to FCAs to exist:

1. the flat must be available for short-term letting.
2. the property in which the flat is situated must have been built before 1980.
3. the property must not have more than four storeys above the ground floor.
4. it must appear that, when the property was constructed, the floors above the ground floor were primarily for residential use.
5. the upper floors must have been either unoccupied or used only for storage, for at least one year before the conversion work starts.

A flat is defined as a dwelling that forms part of a building; it is a separate set of premises and is divided horizontally from another part of the building. To qualify, it should not have more than 4 rooms (ignoring kitchens and bathrooms) and it should not be a high value flat.

The nature of the FCA scheme is very similar to the Industrial Buildings Allowances (IBAs) scheme in that:

- the allowance goes to the person holding the relevant interest and incurring the expenditure.
- there is a balancing adjustment if the relevant interest is sold or the flat ceases to be held for letting out.

However, there are differences as follows:

- where there is a transfer of the relevant interest HMRC will recover all allowances given but the person to whom the relevant interest is transferred cannot claim FCAs.
- the allowances are not recovered by HMRC if the flat is disposed of or ceases to be held for the qualifying purpose at a time more than seven years from the date when the flat was first suitable for letting.

The FCA scheme is a particularly generous one that many property owners and asset managers remain unaware of.

Capitus offers a range of services aimed at maximising the benefits of this incentive and while the scheme may at first appear onerous, a simple review of a client's proposed or historic property conversion expenditure is sufficient for us to assess the potential tax relief available.

Contact Kevin Meyer [meyer@capitus.co.uk](mailto:meyer@capitus.co.uk) for further details.