

New generation student flats offer little tax relief

The tax regime that governs student accommodation is challenging to comprehend, and so it is little wonder that few investors manage to maximise the relief to which they are entitled.

Despite a confusing backdrop of conflicting revenue and customs briefs issued in recent years, tax relief is available on aspects of student accommodation and is well worth claiming.

The Capital Allowance Act restricted the ability to claim capital allowances on items of plant or machinery for use in a "dwelling house", but the legislation specifically excluded university halls of residence.

However, in 2008 Revenue and Customs recognised the growing market for commercial student accommodation and the evolution in design from traditional halls of residence to self-contained "cluster" flats.

This style of accommodation afforded students a greater degree of private living – as would a modern apartment block, which would be classified as a "dwelling house" – so Revenue

and Customs sought to restrict the tax relief on such properties.

It subsequently issued two briefs – 66/08 in December 2008 and 45/10 in October 2010 – in an attempt to clarify its interpretation of the legislation and the application of the "dwelling house" definition to student accommodation. The briefs were intended to limit capital allowances within contemporary student accommodation to the communal areas.

The second brief – 45/10 – superseded previous rules and outlined Revenue and Custom's view that capital allowances may only be claimed on communal areas such as the entrance lobby, stairwells and lifts.

In this type of accommodation, we would expect capital allowances to be restricted to between 3% and 8% of the total development expenditure, rather than the 25%-35% previously available.

However, capital allowances may be available, in full, on halls that have bedrooms on many floors and with a communal canteen and lounge areas.

The design of the accommodation can have a significant impact on the amount of tax relief claimable. Specialist advice should be sought at the design stage to maximised tax relief.

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