

Over the last few years, Peter has purchased several properties in Manchester as 'buy to let' investments. 5 Whitby Ave is let out furnished at £500 per month. A tenant moved in on 1 March 2016 but left unexpectedly on 1 May 2017 having paid rent only up to 31 December 2016. The tenant left no forwarding address.

17 Bolton Rd has been let furnished to the same tenant for a number of years at £800 per month.

A recent purchase, 27 Turner Close has been let unfurnished since 1 August 2016 at £750 per month. Before then it was empty whilst Peter redecorated it after its purchase in March 2016.

Peter's expenses during 2016/17 are:

	No 5	No 17	No 27
	£	£	£
Insurance	250	250	200
Letting agency fees	—	—	100
Repairs	300	40	—
Redecoration	—	—	500
Curtains	130	—	—
Washer-dryer	—	600	—
Dining table and chairs	—	350	—

No 27 was in a fit state to let when Peter bought it but he wanted to redecorate the property as he felt this would allow him to achieve a better rental income.

The new curtains for No 5 were replacements for old curtains. Peter sold the old curtains for £15.

The washer-dryer for No 17 was a replacement for a washing machine without a dryer. If Peter had bought a new washing machine without a dryer, similar to the old machine, it would have cost him £475. The old washing machine was scrapped with no proceeds. Peter had not previously provided a dining table and chairs in No 17.

Peter made a UK property business loss in 2015/16 of £300.

What is Peter's taxable property income for 2016/17?

	No 5 £	No 17 £	No 27 £
2016/17			
Accrued income	6,000		
12 × £500		9,600	
12 × £800			6,000
8 × £750			
Less:			
Insurance	(250)	(250)	(200)
Letting agency fees			(100)
Impairment loss (irrecoverable rent)			
3 × £500	(1,500)		
Repairs	(300)	(40)	
Redecoration (N)			(500)
Replacement domestic items relief			
Curtains £(130 – 15)	(115)		
Washer dryer (limited to cost of washing machine without dryer)		(475)	
Dining table and chairs (no relief for initial expenditure)			
Property Income	<u>3,835</u>	<u>(0)</u>	<u>5,200</u>
Total property income			£
Less loss b/fwd			17,870
Taxable property income for 2016/17			<u>(300)</u>
			<u>17,570</u>

Note: The redecoration of No.27 is an allowable expense. This is an example of the application of the case of *Odeon Associated Theatres Ltd v Jones 1971* (covered in more detail later in this Text) which showed that the cost of initial repairs to remedy normal wear and tear of a recently acquired asset was an allowable expense. This contrasts with the case of *Law Shipping v. CIR 1921* where the cost of initial repairs to improve an asset recently acquired to make it fit to earn profits was disallowable capital expenditure. The key point in relation to No. 27 is that it was fit state to let when acquired.