What are Capital Allowances?

Capital allowances are a tax relief available to a taxpayer on certain capital expenditure within a commercial property, regardless of age, specification or interest held. Capital allowances reduce the amount of tax paid by either an Income or a Corporation taxpayer, directly resulting in a cash benefit to their business.

The taxpayer must be using the qualifying assets in the course of their trade and must be able to demonstrate ownership.

Qualifying expenditure

This guide will deal with plant and machinery allowances only. There is no definition in the Taxes Act as to what constitutes plant or machinery but certain items are specifically stated in the CAA 2001 and additional items have been held as plant in various legal cases.

The following items are examples of plant and machinery qualifying for capital allowances:

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Plant</td>
<td>Carpets, Signage and blinds, Demountable partitions, Sanitary installation, Fire alarms, BMS systems, UPS installation, Fixtures and fittings, Racking, Prelims, OH&amp;P, Fees &amp; BWIC</td>
</tr>
<tr>
<td>Integral features</td>
<td>Electrical systems, Heating, Vent and Air conditioning, Lifts, Cold water, External solar shading, Prelims, OH&amp;P, Fees &amp; BWIC</td>
</tr>
<tr>
<td>Enhanced Capital Allowances (ECA’s)</td>
<td>Efficient boilers/chillers, Heat pump AC systems, Zone controls, Lighting, Pumps, motors, drives, Pipe-work insulation, Water flow controllers, Rain water harvesting, Low flush WC’s, Low water usage taps</td>
</tr>
</tbody>
</table>

Who can benefit?

All taxpayers can benefit from capital allowances i.e. property investors, owner occupiers, landlords and tenants.
When do you consider Capital Allowances?

Capital allowances should be considered whenever a taxpayer is incurring capital expenditure or when they have previously claimed allowances and they are selling the property. Qualifying expenditure on plant and machinery can be incurred on acquisition, new construction, refurbishment and fit-out. Capital allowances may also be available when making a capital contribution to another’s fit-out expenditure. Capital allowances are not available on dwellings.

Typical proportions of allowances within a range of different types of expenditure are shown below. The ranges allow for differences in specification and content.

<table>
<thead>
<tr>
<th>Description</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office refurbishment / fit out</td>
<td>45% - 75%</td>
</tr>
<tr>
<td>AC office - new build</td>
<td>25% - 40%</td>
</tr>
<tr>
<td>Non AC office - new build</td>
<td>20% - 30%</td>
</tr>
<tr>
<td>Budget Hotel 3* - new build</td>
<td>25% - 35%</td>
</tr>
<tr>
<td>Purchase non AC office</td>
<td>14% - 25%</td>
</tr>
<tr>
<td>Purchase care home</td>
<td>18% - 25%</td>
</tr>
</tbody>
</table>

How do you claim Capital Allowances?

On new construction, the actual cost of all eligible items is extracted from the quotation or final account. On second-hand property acquisitions we value the eligible assets using an apportionment of the purchase price. To the base cost of each asset we add a proportion of the contract site cost, fees and OH&P. The capital allowances identified are generally claimed in the year in which the expenditure is incurred. Currently a taxpayer can claim retrospectively and there is no time limit on how far they can go back. From April 2014 new rules require a seller to pool their expenditure on disposal or transfer to enable a future owner to claim.

Different types of plant and machinery attract the tax relief at a different rate. The asset is allocated to one of the three main pools shown above. An annual allowance is taken and set against the taxpayer's taxable profits.

1. General plant; 18% per annum reducing balance basis
2. Integral features; 8% per annum reducing balance basis
3. ECA’s; 100% first year allowance

By way of an example, a £2,000,000 fit-out could contain £1,000,000 of plant and machinery capital allowances. This equates to £240,000 cash saving to a Corporation taxpayer and £400,000 to an Income taxpayer at current rates.

Optimise the flow of allowances with ECA’s

The ECA category was introduced in 2001 and is intended to encourage the installation of environmentally beneficial plant and machinery. A generous tax relief of 100% in the year of expenditure is given on energy efficient or water saving technologies. Valid claims are dependent upon the installed items of plant being listed on the Energy Technology List.

This list is managed on behalf of the government and is updated twice a year. Details can be found at www.etl.decc.gov.uk/etl or www.defra.gov.uk
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Why are CA’s not automatically claimed by my Accountant?</strong></td>
<td>Many business owners assume their accountant has this in hand. CA’s require a specialist tax knowledge which would reasonably sit outside the general experience of most accountants. Successful claims rely on a detailed knowledge of the relevant statute and case law along with an understanding of recognised valuation principals adopted by HMRC.</td>
</tr>
<tr>
<td><strong>I don’t have sufficient taxable profits to benefit from the allowances, so why claim?</strong></td>
<td>Use the allowances to create a greater loss for future use or disclaim the allowances so the tax benefit is deferred until they are needed.</td>
</tr>
<tr>
<td><strong>I don’t want to claim CAs at the moment.</strong></td>
<td>New rules introduced in April 2012 require all sellers to pool their expenditure on disposal.</td>
</tr>
<tr>
<td><strong>I have just purchased a building originally built in 1985 so the plant and machinery can’t be worth anything?</strong></td>
<td>The CA’s claim is based upon an apportionment of your purchase price regardless of the age or condition.</td>
</tr>
<tr>
<td><strong>I purchased an office in 2001 and didn’t claim, can I make a claim now?</strong></td>
<td>Yes you can make a claim now and use the allowances in any year so long as the accounts are open.</td>
</tr>
<tr>
<td><strong>Can I make a claim on my 2001 office even though I refurbished it in 2005?</strong></td>
<td>Yes, you can make a claim on the original purchase and the subsequent fit out expenditure.</td>
</tr>
<tr>
<td><strong>I am selling the property; will I suffer a tax “claw back” (give back all the allowances)?</strong></td>
<td>No you can keep all the allowances on disposal with the right provisions in the sale agreement.</td>
</tr>
<tr>
<td><strong>Why not wait until next year when I am preparing my tax return?</strong></td>
<td>Prompt action generally results in a better claim because the parties involved and the cost information is more readily available.</td>
</tr>
<tr>
<td><strong>I am a developer, can I claim capital allowances?</strong></td>
<td>Yes you can if you hold the property as an investment. No if you hold it as a trading property. The allowances have a value to a future owner of the property.</td>
</tr>
<tr>
<td><strong>I am a tenant, can I claim on my leasehold improvements?</strong></td>
<td>Yes if you have incurred capital expenditure within your demise.</td>
</tr>
<tr>
<td><strong>Can I claim if I am a landlord and I am letting the property out?</strong></td>
<td>Yes as long a no prior claims restrict your ability to claim.</td>
</tr>
<tr>
<td><strong>I vacated a property a while back can I still claim the capital allowances on my expenditure?</strong></td>
<td>Yes so long as it was capital in nature and the accounts for that financial period are still open.</td>
</tr>
<tr>
<td><strong>I have a property held by a Pension Fund so the capital allowances have no value.</strong></td>
<td>The allowances have a value to a future owner. This could enhance the capital value.</td>
</tr>
<tr>
<td><strong>I am a tenant and my landlord has made a capital contribution to my fit out, can I claim capital allowances?</strong></td>
<td>No, you can only claim on the capital expenditure that you have incurred.</td>
</tr>
<tr>
<td><strong>I am a landlord and I have made a capital contribution to my tenant’s fit out. Can I make a claim?</strong></td>
<td>Yes, as long as you have made correct provisions for this in the lease agreement with the tenant.</td>
</tr>
<tr>
<td><strong>Will capital allowances affect my CGT position?</strong></td>
<td>Only if you sell the property at a loss.</td>
</tr>
</tbody>
</table>
Capital Allowances:
Make our tax and accounting knowledge your strength

The firm’s team is led by Louise Barth MRICS, who has over 15 years specialist capital allowances experience, working for a variety of investment companies, venture capitalists, JPUTS, owner occupiers, corporate and private individual clients.

AEH Capital Allowances Service:

- Advising on the new capital allowances rules
- Due Diligence on property purchases and disposals
- Combining tax knowledge and surveying skills to maximise figures
- Preparation of fully auditable purchase and construction claims
- Provision of a Schedule of Qualifying Expenditure for self assessment
- Liaising with external advisors and consultants as necessary
- Identifying Enhanced Capital Allowances (ECAs)
- Negotiate and reach agreement with HMRC and their agents
- Identification of 100% fully deductible expenditure on repairs
- Advising on lease incentives – Landlord’s contributions
- Regular client updates

The team can provide an initial, no obligation, review of expenditure to assess claim viability and an estimate of the likely level of allowances available within your project or property purchase.

Our Philosophy:

Our mission is to provide senior-level, practical advice complemented by a broad spectrum of additional property services that Altus also undertakes for clients.

We seek to develop an understanding of your needs in order to tailor the service that we deliver. We strive to help maximise the returns on your investment, reduce your tax burden and identify and manage risk.

Further Information:

Louise Barth MRICS
Vice–President
Head of Capital Allowances

Louise would be happy to informally discuss your requirements and the benefits of our service in more detail. Contact details are as follows:

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