

# Capital Tax Allowances on Property and Plant

For many taxpayers and their advisors, the issue of property taxation is often an irrelevance and falls under the 'too difficult' heading. Most commercial buildings, however contain tax relief in the form of Capital Allowances that impact on the real return from a property.

## What are Capital Allowances?

Capital allowances are a form of tax relief intended to encourage investment in long term assets such as buildings, plant and equipment. The value of items of capital expenditure, which qualify for capital allowances are deducted from a company's taxable profits.

## Who can Claim Allowances?

Any company who pays tax and also incurs capital expenditure, on the plant and machinery which belongs to them and is used in the course of their trade.

In property terms, claimants fall into two categories.

- Owner-occupiers & tenants.
- Property investors such as property companies and Life funds who pay tax.

Property traders who buy or build a property with the intention of selling

it at a profit would not be entitled to claim Capital Allowances, because their costs are classified as a revenue expense rather than capital.

## What types of Allowance could be claimed?

There are various forms of capital allowances which have a potential impact on new build, refurbished and second hand commercial or industrial property in the United Kingdom, these are predominantly:-

- Plant & Machinery (written down at 25% per annum)
- Industrial Building Allowances (written down at 4% per annum)
- Hotel Allowances (written down at 4% per annum)
- Scientific Research Allowances (written down at 100% per annum)
- Energy-saving Investments (100% first year allowances)

The rules and regulations, which entitle a taxpayer to claim these allowances, differ for each category as does the value of the allowances, or the rate at which they can be claimed (see above)



Plant and Machinery is the most common form of Capital Allowance, in that it will occur in virtually every type of building. The definition of plant is somewhat confused, but typical items of plant would be air conditioning, heating, lifts, escalators, fire alarms, carpets and even sanitary fittings.

## What are the Allowances worth?

The value of the allowances depends upon the rate at which the allowance can be claimed and the rate at which a particular company or individual must pay tax, but given a standard rate of Corporation Tax of 30%, £1million of plant and machinery allowances would generate a total tax saving of £300,000 with 76% of the saving being claimed in the first 5 years.

## Are Allowances available on purchased property?

Yes usually, however the quantum of the allowances can vary greatly depending on who the previous owners have been, whether claims have already been made, the date of the acquisition and what interest is being acquired.

Pre-acquisition assessments of potential allowances carried out on a property can enhance both the bid price and long term return on an investment.

Similarly a review of allowances that have already been claimed on a property, to identify any shortfalls in prior years, can result in a welcome tax refund.

## What other benefits can Allowances offer?

### Sales Aids

Just as the quality of finishes, the flexible accommodation or the

covenant of tenant is brought to a prospective purchasers attention in the sales particulars, so should the benefits of the tax savings available through Capital Allowances. For non tax paying funds or charities, Capital Allowances have no direct benefit, they can however, be used to assist in the selling of their property.

### Tenant Inducements

Tenants lease agreements often include rent-free periods, contributions to tenants fitting out works etc. With careful planning, lease agreements can be structured in a tax efficient manner so that landlord contributions can be attributed to items of qualifying capital expenditure, and the tax saving subsequently claimed back under the appropriate section of Capital Allowances legislation.

## Can you afford to ignore Capital Allowances?

There are three things to remember:-

- Allowances = Money
- Every property transaction has a

potential Capital Allowance implication.

- Have you asked the relevant questions – maybe no one has considered Capital Allowances!

Colliers CRE act for a number of clients, each with different and specific needs, complimenting those services provided by accountants or in-house tax departments.

We offer pre-acquisition assessments, pre-construction tax analysis of design, preparation of claims for capital allowances, negotiation and agreement with the Inland Revenue, prior year analysis of expenditure to ensure all available relief has been claimed.

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*This article is a distillation of the content of notes accompanying a CPD talk 'Capital Tax Allowances'. If you would like to hear the talk, receive a copy of the notes, or any of the previous Bullet Points noted below, then please contact Gary Powell in London.*

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