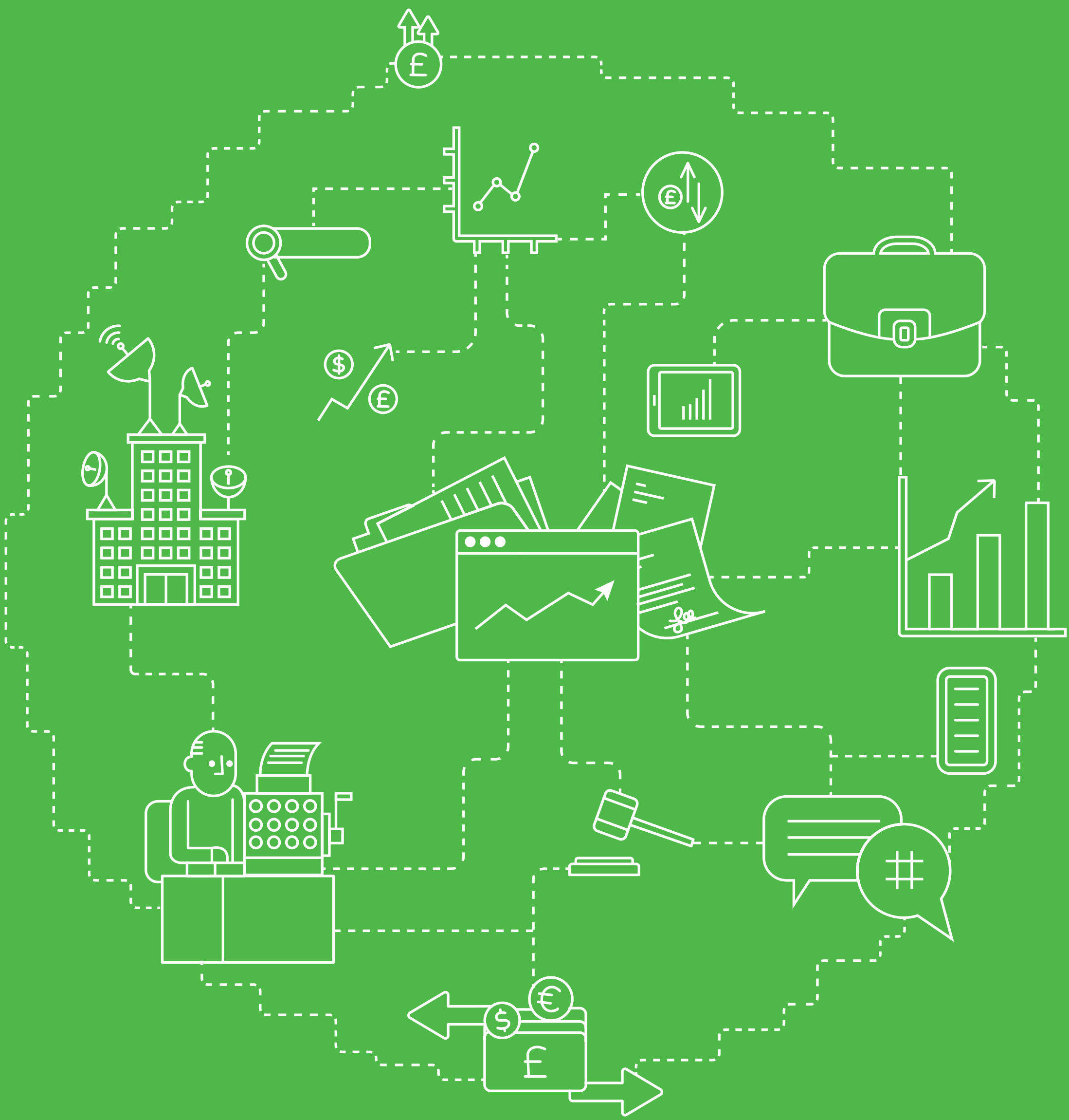
Capital allowances

Challenging common myths and unlocking opportunities



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The importance of capital allowances for your business

For many years the government has used capital allowances to encourage businesses to invest in plant and machinery, recognising the important role this plays in innovation and improving the UK's economic output. The availability of capital allowance tax relief can significantly reduce the cost of the investment by reducing the owner's tax liability.

The scope of the relief covers a wide range of assets, including certain fixtures within commercial properties. These fixtures can represent anywhere between 5 per cent and 45 per cent of the cost of a property.

There can be significant benefits and cash tax savings made from understanding what capital allowances are available to your business.

Despite this, many commercial property owners and occupiers miss out on tax savings because of a combination of poor advice and a lack of understanding about what can be claimed for. Making a claim can be much easier than you think, and our team can help you overcome any obstacles that may stop you making a claim.

At RSM, we have found that there are a number of common myths that often stop businesses from claiming capital allowances and as set out in this myth-busting guide, all of these so-called challenges can be overcome to ensure no tax relief is lost.

What's happening in the world of capital allowances?

Over 20,000 non-residential transactions exceeding

£500,000

Value of

£105bn[1]

Claims for capital allowances on qualifying assets 2015-16

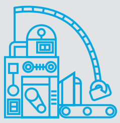
Increase of

£2.5bn

(3 per cent) to

£90.5bn[2]

88%



of capital allowance claims were on plant and machinery

Increase of

£4.1bn

(5 per cent)

[1] Source: ONS Corporation Tax Statistics 2017; August 2017
[2] Source: ONS UK Property Transaction Statistics; June 2018
*Figures are for period 2015-16 and compared with the previous period of 2014-15

The common capital allowance myths challenged

1.We have no cost breakdown for our expenditure so we can't make a claim

In many circumstances, this is a barrier to making a claim as the qualifying expenditure must be accurately assessed. However, a lack of detailed information can be overcome by a capital allowance specialist. RSM's multi-disciplinary team is made up of chartered surveyors, chartered accountants and chartered tax advisors. We're able to build robust claims from the ground-up, using industry cost databases and evidence gathered from site visits to identify and quantify the value of allowances available.

Case study

We have recently advised on the development of a large grade A office development. The building had been completed a number of years ago, and no cost information was available in respect of the construction expenditure. Following a site visit and our experience of similar properties and benchmarked cost data, it was possible prepare a capital allowance claim. This resulted in a capital allowances claim in excess of £2.5m.

2. My advisor has already made a capital allowance claim

Many advisors will make routine capital allowance claims for assets such as computers, trade equipment and furniture. But in order to fully benefit from capital allowances, a combination of surveying and specialist taxation knowledge is needed. For this reason, the majority of accountants are unaware of the full extent of what may be claimed and how to value it. In our experience, involving a specialist can almost always increase the quantum of the claim, sometimes by as much as 100 per cent.

Case study

A healthcare business operated across several sites and had undertaken a significant refurbishment to one of their sites. The client had claimed capital allowances on an element of the costs – equating to approximately 20 per cent of the expenditure. Using the experience of our specialist team, supported by a site visit and reviewing construction drawings, we were able to identify a significant amount of unclaimed tax relief. This had the effect of increasing the proportion of expenditure qualifying from 20 per cent to in excess of 70 per cent.

3.We can't make a capital allowance claim because we're out of time

When considering a capital allowance claim, it is possible to go back to the date when the property was purchased. At RSM, we have prepared numerous claims for properties acquired in the 1980s. Any capital allowances that are identified have to be brought forward into the latest open tax year which is generally the one before the current tax year. The only requirement is that the items covered as part of the capital allowance claim are still in existence in the building at the end of the year being claimed for. Alternatively, it is possible to make a claim in the next tax return and begin claiming allowances from that point forward.

Case study

Shortly after being appointed for a wholesale and distribution company, we discovered that capital allowances claims had not been made since acquiring their distribution warehouse in the late 1980s. As the majority of the fixtures within the property were still there, it was possible to carry out a valuation exercise which generated over £100,000 of tax relief for them. It was possible to include the capital allowance claim in the corporation tax return for the previous year that had already been submitted. This review generated a tax repayment of just over £10,000.

4.We're loss-making so we can't benefit from making a capital allowance claim

Capital allowances are a very flexible form of tax relief. If a company, partnership or individual is loss making, the relief can be either carried back (via the loss carry back rules), carried forward or surrendered via group relief.

Additionally, in certain circumstances it may be possible to surrender a loss arising from a capital allowances claim to HMRC in return for a payable tax credit – resulting in a beneficial cash-flow boost.

Case study

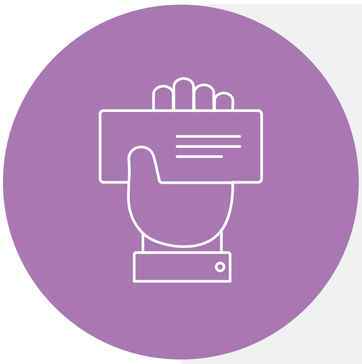
A client had owned a building for several years and run a profitable business from the premises. Due to issues outside of their control there was a downturn in trading performance which resulted in the business becoming a loss-making and creating cashflow challenges. It was established that capital allowances had not been claimed in respect of the building. Our team were able to prepare a retrospective claim based on the original cost and submit this as part of the current year tax return. Although the business was loss making in the year, they were able to take advantage of the loss carry back rules and remove the whole of the previous year's tax liability – resulting in a refund of that year's tax paid.

5. It's only a timing benefit that will be clawed back when we sell the property

It's a common misconception that making a capital allowance claim reduces a building's base cost for capital gains purposes. This is generally not the case – unless the property is sold at a loss. Furthermore, since April 2014 the transfer of allowances when a property is sold often requires agreement between the buyer and seller which can act to protect the seller against any claw back of relief.

Case study

A business discussed their plans to build an iconic new headquarters containing some innovative design features for £15m . The aim of the design features was to create an interesting and inspiring working environment to help attract and retain a talented workforce. We proposed to advise the business on the capital allowances available in the headquarters on a proactive basis, throughout the construction project. This involved working with the design team even before construction had begun to identify energy efficient technologies that provided tax cash flow benefits. As a result, we were able to influence the building specification and improve tax cash-flow for the client.



6. The previous owner of the property has claimed all the capital allowances

The rules surrounding capital allowances on second-hand properties are particularly complex. In many cases there may be an opportunity to identify previously unclaimed allowances. This can be for several reasons:

1. the seller is not entitled to claim (e.g. as a charity, pension fund or similar non-tax paying entity).

2. The property has been owned for over 10 years (additional capital allowances assets were introduced in 2008, if the seller held the asset prior to 2008 then a partial claim may be possible).

3. The seller is a property developer/trader holding the building as a current asset.

Our experienced team can carry out an initial feasibility review at no cost to determine if an opportunity for a viable claim exists. This makes the process much smoother and reduces the time burden of identifying savings.

Case study

A business owned a £200m property portfolio and had recently acquired a town centre retail warehouse for over £7m. An election to fix the amount attributed to capital allowances to just £1 has been included in the sale contract. The company therefore assumed that no capital allowances could be claimed by them on this property. Our experienced team of surveyors and tax advisors carried out a feasibility study, which included a review of the acquisition documentation. We identified that a further claim could be made due to a change in the capital allowances legislation in 2008. As the previous owner of the property had held the property since before April 2008, our client was able to make a claim for additional fixtures within the retail property that generated over £80,000 of tax relief.

Capital allowances checklist

If you think you might have a capital allowance claim then use our checklist and ask yourself these questions:

Question	Yes/No	Advice
Do you own or occupy property for the purposes of your business?		This is the starting point for any capital allowance claim. The relief is not restricted to property owners – tenants can also make a claim for any fit-out of refurbishment cost incurred.
Have you incurred capital expenditure on buying/building property more than £1m. Or, more than £500,000 on refurbishment/fit-out works?		We would recommend that a review of historic capital expenditure incurred above these thresholds is carried out to ensure all allowances available have been claimed.
Do you still own the plant and machinery installed in your property as part of historic capital expenditure incurred?		We would recommend that a review of historic capital expenditure incurred above these thresholds is carried out to ensure all allowances available have been claimed.
Is the property that you have acquired, constructed or refurbished a hotel, care home, office or motor dealership?		These types of properties have the greatest proportion of capital allowances available and therefore generate the highest level of tax relief.
Did you acquire a commercial property from a non-tax paying entity such as a charity or pension scheme?		There is potential to make a full capital allowance claim based on a just and reasonable apportionment of the purchase price. Depending on the type of property that has been acquired, this could be up to 40 per cent of the purchase price and generate significant tax savings.
Have you acquired a commercial property from a seller who has owned the property since before April 2008?		From April 2008 additional items have been brought under the capital allowances regime. These new allowances are available to the next new owner of the property after April 2008 and are in addition to the allowances agreed in the sale contract, even if capital allowances were pre-agreed with the seller.
Have you carried out refurbishment works to your commercial properties that you either own or lease?		Capital allowances are available to freehold and leasehold owners of commercial property on capital expenditure they incur on the property including refurbishment works. You can also claim tax relief on items that are revenue in nature that may have been capitalised in your accounts. This enables tax relief to be claimed on expenditure that may not qualify for capital allowances.
Have you incurred expenditure on heating, ventilation and air conditioning (HVAC) equipment, lighting, boiler equipment, or pipework insulation either in a new purpose built commercial property you are constructing or an existing property you own or occupy?		Enhanced capital allowances are available at 100 per cent tax relief in the year of expenditure on these technologies. Anyone constructing new purpose-built properties should seek advice throughout the construction project to help ensure opportunities to claim enhanced capital allowances are not missed and tax cash flow benefits are maximised.
Do you own a residential block of apartments that you rent out to tenants?		Although capital allowances are not available on residential property you can claim allowances on the common areas within an apartment block. This can generate significant tax savings for the landlord and is often missed.

If you've answered yes to one or more of these questions, it is likely your business has a potential opportunity to claim. For more advice, get in touch with our national capital allowances team.

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