ADDING VALUE

When Purchasing Commercial Property

Plant and Machinery Allowances

These allowances are given, for qualifying items that are used in the course of a claimant's trade or profession. Allowances are given are 8% for assets that are deemed to be an integral part of the building and 18% for other qualifying items.

Enhanced Capital Allowances

A First Year Allowances of 100% is given for is available for qualifying items of energy saving or water saving technologies. This can provide a cash flow benefit of £20 for every £100 invested for a company or basic rate taxpayer or £40 for a higher rate taxpayer.

Annual Investment Allowance

The Government provides an Annual Investment Allowance, which gives 100% relief for the first £200,000 of qualifying expenditure. Like ECA's this can provide a significant cash flow benefit.

Enterprise Zones

This is a first year allowance of 100% of qualifying expenditure to companies investing in plant or machinery in designated in Enterprise Zones. The relief is available until 31 March 2020.

Are you ready?

From 2012, a greater degree of due diligence and evidence is now required, and tax paying vendors must pool qualifying expenditure and make an adequate election on the sale of the property to be able to transfer any allowances.

From 2012, tax-paying vendors must pool qualifying expenditure and make an adequate election on the sale of the property. In addition, replies to Commercial Property Standard Enquiries (CPSE) must be detailed, and specifically address the questions being raised. The response, "The purchaser should make their own enquiries" will not be suitable going forward. Failure to adapt to the new changes, could not only mean tax relief being lost for the purchaser, but also an unwelcome balancing charge for the vendor.

If the capital expenditure has not been pooled and an appropriate election agreed the parties have 2 years from the date of purchase to do so.

How Capital Allowances Add Value

The main benefit of claiming capital allowances is that it may improve the cash flow for a taxpayer. In addition, claiming and maximising capital allowances has secondary benefits for the taxpayer including:

1. Providing a means where the taxpayer has more working capital at their disposal.
2. Making available more cash to pay lenders, therefore lowering the risk of the investment in the eyes of the lender.
3. Gives the taxpayer the potential of using the available cash generated through claiming capital allowances, to make further investments, or improve other areas of the business.
4. May in some circumstances create a payable tax credit from HM Revenue and Customs

For developers, the main benefit of for considering capital allowances is not in terms of improving cash flow but in enhancing the property's value for sale.

Highlighting to any potential purchaser, the value of any capital allowances, especially in terms of any energy and water saving technologies that qualify for Enhanced Capital Allowances will enhance the property's saleability.

If a value cannot be agreed between the parties, an application should be made to an independent tribunal to determine the disposal value of the plant and machinery.

Due diligence is essential

Notwithstanding the new fixtures rule, a high degree of due diligence is now required, in advance of any transaction. In particular, the following things must be considered:

- Whether Industrial buildings allowances, Hotel Allowances, Enterprise zone allowances, Research and development allowances or Business Premises Renovation Allowances have been claimed
- Has a vendor who owned the property before 31 March 2008, retained the general electrical, general lighting, external lighting and cold water systems or have they incurred expenditure repairing or improving these items
- Has there been any previous capital contributions towards the costs of a tenants fit out costs

The change to the rules on claiming capital allowances in relation to fixtures contained in second hand properties has added further levels of due diligence which if not completely understood and complied with could result in either a hold up to the ideal being completed or a lesser sale price being realised.

How we can help add value to your project

At Cavetta Consulting, our objective is to provide support to our clients, allowing them to add value to their business. The proactive services (the best medium for maximising tax relief) that we provide include:

1. Reviewing clauses within the purchase agreement to ensure that they allow the purchaser to make a claim for capital allowances if desired.
2. Reviewing replies to CPSE to ensure that the responses provided (or received) are sufficient to ensure that a successful claim for capital allowances can be made going forward.
3. Reviewing the capital allowances position before the contract for sale is completed. Ensuring that the vendor completes all the appropriate elections in accordance with the Capital Allowances Act 2001.
4. Performing a capital allowances due diligence exercise, and establishing whether a claim for capital allowances has been made. HM Revenue and Customs requires that the evidence of claims be documented to the extent of a previous one of the property going back to 24 July 1996.
5. Where we have established that the purchaser of the property is entitled to make a claim for capital allowances in relation to the fixtures contained within the property, we can carry out a claim for capital allowances based on an apportionment of the purchase price in accordance with S562 Capital Allowances Act 2001. This exercise will require measuring the property, estimating the replacement cost of the building and carrying out a valuation of the land.
6. Where the property has been purchased new and unused form a developer, who has held the property as trading stock, we can perform a review of the mechanical and electrical installations in order to establish whether a claim for 100% enhanced capital allowances can be made.
7. Perform the relevant calculations where the property has been disposed of under a sale and leaseback transaction.
8. Carry out a visual inspection of the property to verify the plant and machinery contained within the property.

Land Remediation Expenditure

The aim of this relief is to remove the cost barriers associated with remediating contamination from land and buildings by giving a 150% deduction for qualifying expenditure for UK companies.

Derelict Land Relief

Similar to Land Remediation Relief this 150% incentive is given where land, whose development has been blighted by various kinds of enduring dereliction, is brought back into productive use.

Research and development

100% tax relief available on certain items of capital expenditure incurred in providing facilities for Research and Development. RDA is only available to traders; a person carrying on a profession or vocation is not entitled to them.

Repairs and Maintenance

100% tax deduction available on certain refurbishment or maintenance costs deemed to be repairs and not improvements. It is important to note the changes to the rules in 2008 regarding the repair of integral features.

Business Premises Renovation Allowance

Introduced to give 100% relief on certain costs associated in bringing properties in designated areas back into business use. This relief is only available until 2017.

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This briefing is intended to provide an introductory outline to certain aspects of the UK Capital Allowances regime. It should not be used instead of obtaining proper professional advice. The outline is for guidance only and is not an appropriate basis for decision-making.

Pension Funds and Charities

Charities and pension funds are still required to meet the criteria of the fixed value requirements and the pooling requirements set out in the new fixtures rules, which came into force in 2012. A due diligence exercise is appropriate upon the purchase of the property in order for the entity to make a disposal value statement once the property is sold.

About Us

Cavetta Consulting our directors have considerable experience advising businesses, property investors, landlords and occupiers on all capital allowances implications that impact their business.

Our fee structure is tailored to take account of the tax status of the individual or company and is designed to add value to your business.

We offer free advice to small businesses at the pre-planning stage of their business to make them aware of the benefits the tax system allows, and a no obligation review of completed or potential schemes in order to determine whether a viable claim for property tax reliefs can be claimed.