

Just What The Doctor Ordered

**PROPERTY TAX RELIEF
FOR HEALTHCARE
FACILITIES**



**WHAT TAX SAVINGS
SHOULD I EXPECT**



**A PROACTIVE
APPROACH YIELDS
RESULTS**



**IS YOUR EXIT
STRATEGY EFFICIENT**

KEYSTONES



Just What The Tax Doctor Ordered

Capital allowances are available for a number of privately owned healthcare properties and facilities. These range from a dentist surgery right through to a PFI funded hospital. However, in some cases, the ability to claim capital allowances may be prevented where the SPV has adopted composite trader status.

Early access to specialist property tax advice, is a particularly good avenue for a business to gain significant cashflow advantages and enhance asset value.

The level of capital allowances that are achieved will depend on the specification of the property, and the level of fit out of the property.

Tax relief, in the form of Capital Allowances is available to businesses incurring capital expenditure on purchasing or fitting out their premises. Claiming these reliefs can provide a business with a welcome cash flow advantage.

A number of items that would typically be fitted to a new healthcare facility are eligible for relief. Typical items include: room furniture, sanitary ware, carpets, reception desk, nurse call stations, kitchen, treatment room furniture, fire alarms, security installations, mechanical ventilations, electrical systems, lighting, heating, air conditioning, medical equipment telephone and data installations.

Situations Where Tax Can Be Saved

CONSTRUCTION OF NEW PROPERTY

The construction of a new commercial property, provides great opportunities for the property owner to benefit from, and maximise the capital allowances available to them.

At the design stage, capital allowances may be maximised by incorporating into the specification tax friendly design features. These could include carpets, solar shading and plenum ceilings, which house bell mouths (effectively using the whole of the ceiling void as a mechanical ventilation duct).

Also, the developer has the opportunity to select energy saving and water saving technologies that qualify for 100% Enhanced Capital Allowances.

It is however, essential that the project delivery team is aware that tax savings are important to the development.

PURCHASING A PROPERTY

Capital allowances are available for the plant and machinery fixtures contained within a property on the acquisition of that property. The amount claimable being based on a fair apportionment of the purchase price.

How Cavetta Consulting adds value to our clients



Claiming capital allowances provides a cash flow advantage.

Proactively claiming them, makes development tax efficient, and preserves and enhances the asset value.

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 currently 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.

PURCHASING A PROPERTY.....

To claim allowances passed on by the vendor, the purchaser will need to ensure they obtain the necessary S198 CAA 2001 election. However, an unrestricted claim may be possible for certain integral features included with the building, where the vendor owned the property before 2008.

Although they may not be able to claim, charities and pension funds should also obtain capital allowances details when purchasing, as they may be required to prepare a disposal value statement when selling the property.

REFURBISHMENT ALTERATION AND FITTING OUT

Projects of this nature, provide particularly good avenues for generating property tax relief. With tax relief for such projects ranging from 45% to 85% of the capital expenditure, such projects can add real value. In addition, a proactive approach gives rise to the opportunity to obtain 100% first year allowances, in relation to the installation of equipment qualifying for enhanced capital allowances and business premises renovation allowances.

Property refurbishment provides a number of avenues to maximise tax relief, that if not properly planned and recorded, can mean that tax relief is lost. The areas that should be considered include:

- Removal of plant and machinery
- Remediation / removal of contamination
- Repairs and maintenance
- Incidental costs of installing plant and machinery to existing building
- Effectively allocating dilapidations receipts
- Effectively allocating grants and subsidies.

REPAIRING AND MAINTAINING THE PROPERTY

A taxpayer who incurs expenditure on qualifying repairs and maintenance may receive a 100% revenue deduction. This deduction will apply to items that may not ordinarily qualify for capital allowances.

The replacement of an asset on a like for like basis i.e, the current modern equivalent, may qualify as a repair. Although any degree of improvement will mean that, a 100% deduction for the repair is unlikely.

However, care must be taken with the repair of items classified as integral features. Here, where any replacement is 50% or more of the capital cost in a rolling 12 month period, the cost must be classified as capital, and will mean that tax relief at 8% will only become available.

LETTING THE PROPERTY

Lease incentives are a common feature of commercial letting. The main lease incentives on the grant of a lease are reverse premiums, rent-free periods and contributions towards a tenant's fit out costs. In all cases the circumstances of both the lessor and lessee need to be taken into account.

On the grant of a lease where a premium has been paid by the tenant careful consideration should be given to who will benefit from claiming allowances and it ant elections are required.

DISPOSING OF THE PROPERTY

It is important to consider your exist strategy at an early stage of your ownership, to ensure that the asset value is maintained.

When disposing of a property the decision is to either retain the tax relief that it has generated or to use the allowances to generate additional value from that asset.

The decision will be market led but it is important that prior to the sale of the property that the capital allowances position is clear. The allowances should be quantified in either an election or a disposal value statement and all capital expenditure incurred during the period of ownership is quantified and pooled where appropriate.

What tax savings can I expect?

The level of qualifying expenditure obtainable will depend on the exact circumstances surrounding the project and the specification of the property itself. Modern buildings, which have been developed by an investor, will tend to have a higher level of plant and machinery contains with them as they try to attract suitable tenants.



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.

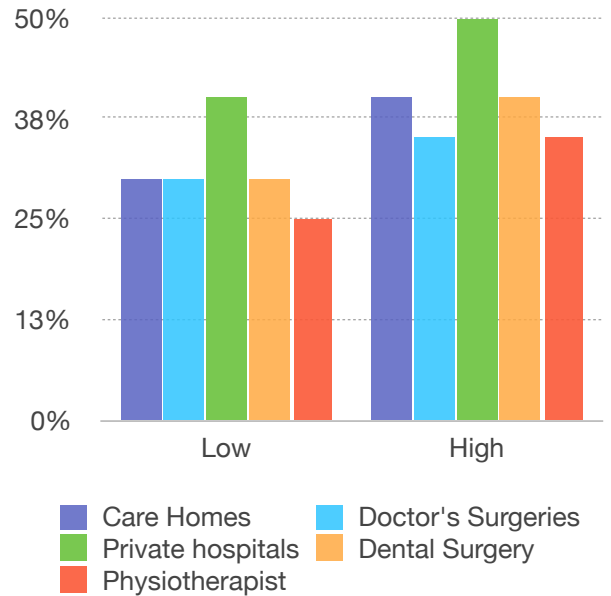
What tax savings can I expect? (contd)

It is also worth bearing in mind that the majority of the qualifying expenditure will be qualifying within the 8% special rate pool rather than the 18% main pool. These allowances are written down over

Typical Proportion of Qualifying Expenditure

DESCRIPTION	LOW	HIGH
Care Homes	30%	40%
Doctor's Surgeries	30%	35%
Private hospitals	40%	50%
Dental Surgery	30%	40%
Physiotherapist	25%	35%

time.



A Proactive Approach Yields Results

Claiming capital allowances is a statutory right. The benefits of claiming this relief are that it will improve your business's cash flow, lower the risk to a lender and may be used as a means to preserve and enhance value.



Who we help

Cavetta Consulting provides a number of capital allowances support services to a number of clients and professional service firms. In particular we help the following groups of people:

- Accountants
- Architects
- Developers
- General Practice Surveyors
- Landlords
- Pension Funds
- Charities
- Owner Occupiers
- Quantity Surveyors
- Solicitors
- Tenants

A Proactive Approach Yields Results (contd)

The full benefit of capital allowances is only realised, when a taxpayer is proactive. A lack of proactivity, often results in claims not being maximised, and ultimately the full cash flow benefits not being realised.

By considering capital allowances at an early stage, in either a transaction or redevelopment, will allow an owner-occupier to maximise their capital allowances position. Areas that need to be considered early are :-

- Application of grant funding received.
- Application of dilapidation, grants or third party payments.
- Information received from a vendor on capital allowances.
- The deal and corporate structure to ensure any tax reliefs are not precluded.
- Specifications and change orders to ensure that 100% tax reliefs are preserved.
- Lease incentives to ensure that the clauses provide maximum tax relief.

Is Your Exit Strategy Efficient?

As the commercial viability of an investment changes, an opportunity to sell the property may present itself. However, when an investment is made in a property, the capital allowances implications at the time of exiting, is often not considered.

Form a capital allowances standpoint, it is important to be aware and plan a strategy for exiting the property in order that the maximum tax relief can be obtained.

There are a number of areas that need to be considered when selling, and good advice is needed to ensure that any tax relief is not clawed back or to ensure any remaining allowances are used as arbitrage against price erosion.



How Capital Allowances Add Value

The main benefit of claiming capital allowances is that it improves the cash flow for a taxpayer. Therefore claiming and maximising capital allowances has secondary benefits for the taxpayer including:

1. Provides a means where the taxpayer has more working capital at their disposal.
2. Taxpayer has more cash available to pay lenders, therefore lowering the risk of the investment in the eyes of the lender.
3. Awareness of capital allowances at the start of the project has a positive impact on project appraisals therefore making the development more viable.
4. Gives the taxpayer of using the available cash generated through claiming capital allowances, to make further investments, improve other areas of the business or save the spare cash for more trying times.
5. May in some circumstances receive a payable tax credit from HM Revenue and Customs

The main benefit of making a development tax efficient is in terms of improving cash flow and, for developers holding the property as trading stock, can actually enhance value in situations where a purchaser acquires a new and unused property containing energy and water saving technologies that qualify for Enhanced Capital Allowances.



Why use a specialist surveyor?

Traditionally tax relief is perceived as the role of an accountant. However, like many elements of accountancy, tax has a number of sub specialisms, including capital allowances. Therefore, the accountant may not have the time or resources to meet their client's expectation that capital allowances is only a tax issue.

In reality claiming capital allowances involves resolving tax, property, construction and valuation issues.

There are some core reasons why a specialist is needed in this area:

- Capital Allowances claims must be able to stand up to scrutiny. The figures need to not only be correct but also justifiable. To ensure no further wide spread enquiries from HMRC.

- Capital allowances claims require specialist knowledge of:

- ▶ Construction of Buildings
- ▶ Valuation Techniques
- ▶ Replacement Costs
- ▶ Measurement
- ▶ HMRC Methodology

- The tax rules are constantly changing, but as specialists in this niche area we ensure that we have the most up to date information.

- A specialist can provide essential preplanning advice, to maximise tax savings and make a project viable.

- A specialist can has a different range of knowledge with can assistance in negotiations with HM Revenue and Customs particularly when they are questioning valuation techniques and construction methodology and technology.

At 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 business 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.

“We do not undertake any appointment where we cannot add value to that business.”

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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

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