

Don't live
without tax
relief?

PROPERTY TAX
RELIEF FOR HMO'S



WHAT TAX SAVINGS
SHOULD I EXPECT



A PROACTIVE
APPROACH YIELDS



IS YOUR EXIT
STRATEGY EFFICIENT

KEYSTONES



Don't live without tax relief?

The updated definition of “a dwelling” has meant that for most properties, the areas of a property that are used as a residence are out with the scope of capital allowances. Notwithstanding this change in legislation, properties used for student accommodation or a House in Multiple Occupation (HMO), may still contain a significant proportion of plant, machinery and fixture and fittings within the property’s “communal areas”.

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

Typical items included with communal areas that may qualify include: carpets, fire alarms, security installations, mechanical ventilations, electrical systems, heating, lighting and passenger lifts.

It is also worth noting that care homes, furnished holiday lettings and privately run prisons are not classified by HMRC as dwellings. A taxpayer with a relevant interest in these properties is therefore free to claim capital allowances for these properties.

The level of capital allowances that can be achieved will depend on the specification of the property and also the level of fit out of the property. In addition, a taxpaying company may also be able to benefit from 150% Land Remediation Relief where it has incurred expenditure on remediating land that meets the criteria stated in legislation.

Tax relief in the form of Capital Allowances, is available to all businesses incurring capital expenditure whether purchasing, refurbishing or fitting out these properties. For businesses, claiming these reliefs, can provide a welcome and significant cash flow advantage.

Situations Where Tax Can Be Saved

CONSTRUCTION OF NEW PROPERTY

The construction of a new relevant residential 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 such as qualifying floor finishes. In addition, 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.

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.

PURCHASING A PROPERTY.....

However, to claim allowances passed on by the vendor, the purchaser will need to ensure they obtain the necessary S198 CAA 2001 election. That said, 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 may give 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
- Effectively allocating grants and subsidies.

REPAIRING AND MAINTAINING THE PROPERTY

A taxpayer who incurs expenditure on qualifying repairs and maintenance items 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 may mean that, a 100% deduction for the repair is unlikely.

REPAIRING AND MAINTAINING THE PROPERTY.....

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.

DISPOSING OF THE PROPERTY

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

When disposing of a property, consideration should be given to the decision 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 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.

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 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. The full benefit of capital allowances is realised only, 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.

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.

This is a particularly popular tax relief for house builders who claim on the extra over costs of dealing with "substances causing relevant harm" such as the removal of asbestos and the treatment of Japanese knotweed.

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.

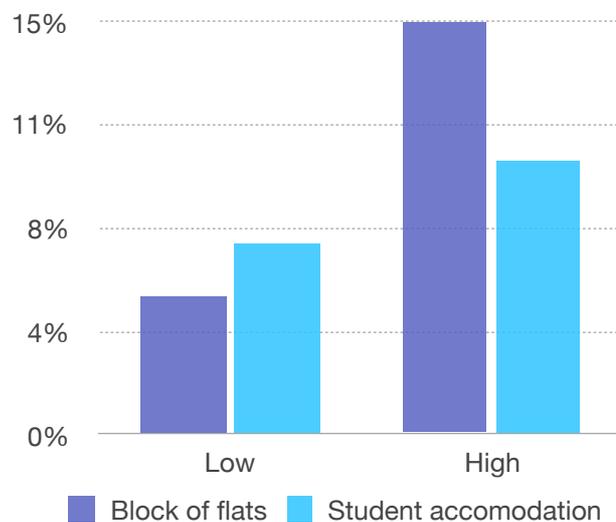
Reliefs are available for dealing with the extra over costs incurred in removing the qualifying obstacles as part of preparing the site for redevelopment.



A Proactive Approach Yields Results (contd)

Typical Proportion of Qualifying Expenditure

DESCRIPTION	LOW	HIGH
Blocks of flats	5%	15%
Student Accommodation	7%	10%



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:

1. Accountants
2. Architects
3. Developers
4. General Practice Surveyors
5. Landlords
6. Pension Funds
7. Charities
8. Owner occupiers
9. Quantity Surveyors
10. Solicitors
11. Tenants

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.

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.

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 will often 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 otherwise there is a risk of further wider spread enquiries from HMRC, whereby they will have the opportunity to look at the wider tax affairs.
- Capital allowances claims require specialist knowledge of:
 - ▶ Construction of Buildings
 - ▶ Valuation Techniques
 - ▶ Replacement Costs
 - ▶ Measurement
 - ▶ HMRC Methodology
- The tax rules are constantly changing, but a specialist in this niche area will ensure that they have the most up to date information.
- A specialist has a different range of knowledge which can assistance in negotiations with HM Revenue and Customs. Particularly when they are questioning valuation techniques and construction methodology and technology.
- A specialist can provide essential preplanning advice, which can help clients maximise their tax savings and make a project viable.



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 Cavetta Consulting?

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.



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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.

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