

# ADDING VALUE

## When Selling 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, 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 no longer be suitable going forward.

Failure to adequately provide for the changes in the rules on claiming capital allowances for plant and machinery contained within a second hand building, as outlined in the Law Society's publication "Capital Allowances: New Pooling Requirement, could result in significant amounts of tax relief being lost for good. This could result in an unwelcome balancing charge for the Vendor and an even more unwelcome additional tax liability.



## 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.

## *Proactivity advice is key to success*

The full benefit of capital allowances advice is realised when a taxpayer is proactive. A lack of proactivity often results in claims not achieving what they ultimately should, and the full benefit of the additional cash flow not being realised.

To realise the maximum benefit those consider selling their commercial property should:

- Look at the wider tax implication of disposing of the property. In particular, consideration should be given for the potential claw back of any claimed allowances.
- Consider whether any disposal of assets that have been elected as being 'short life assets' will result in a balancing charge.
- Ensuring all expenditure has been pooled, the tax written down value confirmed and the tax returns are fully up to date.
- Tell the market that capital allowances are available. This is particularly relevant where the vendor has owned the property before 31 March 2008.
- Where a purchaser could benefit from 100% Enhanced Capital Allowances or Business Premises Renovation Allowances, being aware that short term lets may bar a purchaser from claiming them.



## ***How we can help add value to your project***

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. If they are not completely understood and complied with, it could result in either a hold up to the deal being completed or a lesser sale price being realised.

At Cavetta Consulting, our objective is to provide support to vendors; allowing them to add value to their business in a number of ways.

Proactive services (the best medium for maximising tax relief) that we provide include:

- Preparation of capital allowances sales aids, in order that you can inform prospective purchasers about the availability of capital allowances.
- A review of the capital allowances history of the property including preparation of capital allowances pools. This is now a statutory requirement for preserving the capital allowances.
- Preparation of S183 CAA 2001 and S198 CAA2001 elections.
- Preparation of responses to Commercial Standard Property Enquiries.
- Review of clauses within the sale agreement



## **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.



## *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. This is particularly relevant, if the entity does not intend to alter or redevelop the property, and intends to dispose of it to make a quick profitable exit.

Cavetta Consulting can assist charities and pension funds to ensure the tax relief inherent in your property, is kept intact to pass on to a potential purchaser.

## **Key Contacts**



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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.**

## *About Us*

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 company and is designed to add value to your business.

We offer free advice to businesses at the pre-planning stage of their project, 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 made.

