

# ADDING VALUE

## To Refurbishment and Fit Outs Projects

### 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.



## Opportunity Knocks!

*Since 2008 the economic climate has been such that many landlords, tenants and owner-occupiers preferred to invest in refurbishment project rather than new build.*

This was particularly true in the run up to the Commonwealth Games in 2014, where the availability of 100% Business Premises Renovation Allowance meant that it simply made sense to refurbish existing properties in Glasgow.

Refurbishing property is historically, an extremely effective means of adding value to a property portfolio. In many circumstances, the owner will, post completion have an upgraded property that will generate higher rental income, and be more sustainable to operate.

With tax relief for such projects ranging from 45% to 85% of the capital expenditure, such projects can add real value. This value is even more beneficial where the client takes up the benefit of special advice at an early stage.



## 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 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.

By doing so, they give themselves the opportunity of widening the tax reliefs available and embracing the 100% first year allowances available.

### *Proactive 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 could have and the full benefit of additional cash flow benefits not being realised.

To realise the maximum benefit those undertaking these projects should ideally be:

- Making sure that the applications of dilapidation, grants or third party payments can be done in a tax efficient way
- Looking out for the opportunity to maximise BPR particularly looking at when the development commences.
- Reviewing the design in order to take full advantage of the benefits of claiming:
  - 8% or 18% tax relief on design items, e.g. carpet instead of tiled floors
  - 100% Revenue deductions for repairs and maintenance.
  - 100% enhanced capital allowances
  - 150% Land Remediation Relief
  - Incidental costs



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

In order to add value to your project, we look at each scheme on its individual merits. Our experience has taught us, that no two schemes are alike, each client has their own commercial objectives, and each scheme has its own tax planning opportunities to maximise savings for the client.

The nature of our work will depend on whether we are involved proactively in delivering the project or retrospectively following completion of the project.

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

- Working with designers to ensure that the items that they include within the design, maximise the tax benefits
- Assessment of the availability of Enhanced Capital Allowances. Reporting on further opportunities and running workshops where required
- Providing advice as to which stage gates to put in place, to obtain maximum tax efficiency in the design
- Ongoing review of change orders and variations
- Advising on how any grant, dilapidations or 3rd party expenditure should be worded and applied to ensure the maximum tax relief is obtained



## **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.



In addition once the project has reached practical completion we can continue to assist you with:

- Analysing any strip out and demolition costs to determine whether any items are claimable.
- Analysing expenditure incurred to ensure that it is correctly attributed to maximise the tax relief available.
- Verification of assets on site.
- Identification and recording of any incidental works
- Preparation of any relevant elections.

## 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.

