Key Actions

CAVETTA CONSULTING
Unlocking Capital Allowances

Hospitality Sector

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UNLOCKING PROPERTY TAX FOR THE HOSPITALITY SECTOR

Key Success

An investor / owner occupier a five star property you can expect to achieve a level of allowances of between 40-45% of the purchase price, depending on the prior tax history or when developing the property, the level expected can typically be expected to reach 45-55%. The level of available allowances can substantially increase if a refurbishment or fit out has been undertaken where 70-90% of total expenditure may qualify for PMA and repairs.

The hospitality sector is one of the most diverse sectors that we come across including food and drink businesses, accommodation businesses and tourism businesses. However, when you buy or develop fixed assets, such as property, you cannot simply deduct the expenditure in calculating your business profits. However, you may instead be able to claim Capital Allowances based on the expenditure.

Capital Allowances provide a type of tax relief that allows businesses to deduct the cost of certain assets from their taxable profits. This tax relief is given at various rates; these include Land Remediation Relief at 150%; Full Expensing (UK Companies only) 100%; Annual Investment Allowances 100%, Revenue Deductions 100% and then Main Pool Plant at 18% and Special Rate Pool Plant at 6%. Hotels, restaurants, public houses along with bed and breakfasts may have substantial plant and machinery (P&M) items. There may be many obvious items of plant such as loose furniture and fittings which an accountant can easily identify and segregate to allowances. However, there can be additional items of P&M integral to the property that are harder to identify, and it is identifying these items that will require a specialist.

However, there are further qualifying items of P&M that are predominantly found within which attract significant allowances. Examples include: Swimming pools and their installation costs, specialist trade drainage, ambient features, entertainment systems, automatic entrance doors. Although care needs to be taken around properties that are leased as items that are not classed as background P&M eg swimming pools may fall foul of legislation around Long Funding Leases and the right to claim on that asset may lie with the lessor rather than lessee.

Whether you are building, buying, fitting out leased premises or refurbishing existing premises there are many opportunities for you to benefit from capital allowances. However, the earlier you consider the allowances in your property transaction the more likely your are to maximise the allowances available. This is especially true when purchasing premises to ensure changes in legislation don't preclude you claiming on assets within the property.

Our processes look to enhance the level of capital allowances that may have already been claimed by your accountant. This normally relates to lump sum contractor stage payments for fit out or extension projects, to help identify items that are not easily identified within the invoices and sit within Land & Buildings on the Balance Sheet. Here, our survey and processes create the required information to maximize your Capital Allowances.

How Capital Allowances Add Value

For investors in the Hospitality Sector, the main benefit of claiming capital allowances is that it may improve your cash flow. In addition, claiming and maximising capital allowances has secondary benefits for the taxpayer including:

- Providing a means where the taxpayer has more working capital at their disposal;
- Making available more cash to pay lenders, therefore lowering the risk of the investment in the eyes of the lender;
- Giving the taxpayer the potential of using the available cash generated to make further investments, or improve other areas of the business;
- Provides an opportunity for investors to increase the return on their investment;
- In some circumstances, this can create a payable tax credit from HM Revenue and Customs.

For those developing properties, as stock in trade, for the hospitality sector, the main benefit for considering capital allowances is not in terms of improving cash flow but in enhancing the property's saleability and potentially its value.

Typical Expenditure Qualifying For Capital Allowances - Hospitality Sector

A Graphical Representation of Typical Expenditure Qualifying For Capital Allowances

To find out more about capital allowances and how much tax you can save contact us for a free no obligation review.

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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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WHY CAVETTA CONSULTING

Helping you maximise your tax relief is how we add value for you. However, the full benefit of capital allowances advice is only realised when you, the tax payer, are proactive. At Cavetta Consulting our directors have considerable experience advising businesses, property investors, landlords, and occupiers on all capital allowances implications that impact their business.

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, your accountant may not have the time or resources to manage the expectation that capital allowances is only a tax issue. In reality, claiming capital allowances involves resolving tax, finance, legal, property, construction and valuation issues.

A capital allowances adviser has a different range of knowledge and skills from your accountant. This enables us to provide assistance to you in negotiations with HM Revenue and Customs; particularly when they are questioning valuation techniques and construction methodology and technology. Capital Allowances claims must be able to stand up to scrutiny. The figures need not only to be correct but also justifiable. This will ensure you have no further wide spread enquiries from HMRC.

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

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. And we never under take a valuation if your accountant could make the claim or we can't add value.

Types of Allowances

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 at 6% for assets that are deemed to be an integral part of the building and 18% for other qualifying items.

Annual Investment Allowance

For all qualifying business expenditure incurred, the Government provides an Annual Investment Allowance, which gives 100% relief for the first £1million of qualifying expenditure, providing a significant cash flow benefit.

Full Expensing

For UK companies only, the Government provides an unlimited, 100% first-year allowance, allowing a full deduction from taxable profits in the year that the expenditure is incurred. The expenditure must be incurred on or after 1 April 2023 but before 1 April 2026 and must be on new and unused assets. It must not have been bought to lease, (although corporate landlords may benefit in respect of background plant and machinery in a leased property).

Structures & Buildings Allowance

This allowance applies to contracts for construction or purchases entered into on or after 29 October 2018. It provides a 3% flat rate relief of the qualifying items eg roof, walls, doors, on a straight-line basis over 33 years.

Land Remediation Expenditure

This relief aims to remove the cost barriers associated with remediating contamination from land and buildings by giving a 150% deduction for qualifying expenditure for UK companies.

Repairs and Maintenance

A 100% tax deduction is 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.

WHAT OUR CLIENTS SAY: Bob McAlpine, Chief Executive, Dalriada Properties Limited

Dalriada Luxury Lodges is a multi-million pound, 5 star, self-catering holiday let development nestled into a spectacular elevated location adjacent to Stonehaven Golf Course in Aberdeenshire. The McAlpine family embarked upon a tendering process and engaged Cavetta Consulting to calculate the capital allowances for this complex project. Lois explained the requirements in plain English and was very easy to deal with throughout the process. We would be delighted to recommend Cavetta for this type of professional service and will use them for our future projects.

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