Key Issues

CAVETTA CONSULTING
Unlocking Capital Allowances

Remediating Contaminated Land

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WHERE THERE'S MUCK?

Land remediation relief was introduced in 2001 to address a market failure, in bringing land and buildings back into use due to being blighted by a previous use.

WHAT IS LAND REMEDIATION RELIEF?

The relief is typically claimed on development, regeneration, refurbishment and fit out projects. It provides a deduction of 100% of the qualifying expenditure, plus an additional 50%, for qualifying expenditure incurred by companies, in cleaning up land and buildings, acquired from an unrelated third party in a contaminated state.

The contaminating substance must be either causing "relevant harm" to the land, the buildings, the groundwater, streams, or the health of humans or animals. In addition, the cost must be directly related to remediating the contamination, and must be extra over costs, not costs for items that you would normally expect to incur in the project. If the remediation work is not carried out, then there is no tax relief.

Both developers and investors can claim this relief, provided that they are subject to UK Corporation Tax, unfortunately at this point individuals cannot claim.

To be entitled to relief, the claimant must be a UK registered company paying corporation tax having a freehold, heritable title or leasehold interest of more than seven years in the land. Although, claims will not be permitted where the land was purchased with a discount relating to the contamination or where the entire has polluted the land or building.

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

Annual Investment Allowance

The annual investment allowance (AIA) provides 100% tax relief on assets qualifying as plant and machinery, subject to an annual maximum and excluding cars. The maximum amounts have varied since AIA was introduced. The maximum amount currently is £1,000,000 to 31 March 2023. AIA can only be claimed in the year the asset is purchased.

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).

Enterprise Zones

This is an enhanced capital allowance of 100% of qualifying expenditure for businesses investing in plant or machinery where the business is located in a designated in Enterprise Zones.

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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.

Adding Value

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WHAT EXPENDITURE QUALIFIES FOR THE RELIEF?

Expenditure Qualifying for land remediation relief included (but is not restricted to):

- Costs of establishing the level of contamination;
- Remediation of contaminated land;
- Removal of asbestos from buildings;
- Treatment of harmful organisms;
- Treatment (not removal) of naturally occurring contaminants including:
  - Japanese knotweed
  - Radon
  - Arsenic

Other well-known items that have been subject to claims include, the removal of asbestos, chromium, cyanide and the removal of hydrocarbons including oil, petrol and diesel.

DERELICT LAND RELIEF

Derelict Land Relief, was introduced in 2009 to address market failure in bringing long-term derelict land back into use. Again, an incentive is given where land, whose development has been blighted by various kinds of enduring dereliction, is brought back into productive use.

To be derelict, the land must be out of productive use and be incapable of being brought back into business use unless buildings or structures on it are removed. There are no stipulations on the use to which the site was previously put, however, to qualify it must be listed as derelict or have been derelict for at least 10 years.

Relief is given for expenditure incurred in removing the following structures left from previous occupation of the site:

- Post-tensioned concrete
- Building foundations and machinery structures
- Reinforced concrete pile caps
- Reinforced concrete basements
- Below ground redundant services e.g. gas, water, electricity and communications.

TIMING OF BENEFITS

The timing however of the benefit, and the ability to make retrospective claims depends onwhether the company incurred capital or revenue expenditure.

For capital expenditure, the relief is claimed in the year the expenditure is incurred, whereas with revenue expenditure is claimed in the year the expenditure becomes a deduction for tax purposes.

The ability to make retrospective claims on capital expenditure is restricted by the need to submit an election to give effect to the relief to HMRC within 2 years of the year end in which the expenditure is incurred. Once this time limit passes, the relief is potentially lost. Claims on revenue expenditure are not so restricted and can go back as far as 4 years.

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:

- 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.
- 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.
- 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, will enhance the property's saleability.

Adding Value

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HOW WE CAN HELP ADD VALUE TO YOUR PROJECT

At Cavetta Consulting, 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:

- **Pre-purchase advice including a review of the proposed corporate structure, and education to prevent actions that may prevent a claim being made, all to ensure that the company does not plan the works in a way that would prevent relief from being claimed or that may lead to additional Landfill Tax.**
- **Making sure the company is aware of how the wording of grant applications may prevent their full entitlement to land remediation relief from being claimed**
- **Review of the site investigation reports and other reports relating to the contamination or dereliction;**
- **Analysis of the relevant expenditure and preparation of the claim for onward submission to HM Revenue and Customs;**
- **Preparation of any relevant elections.**

Types of Allowances

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

RDAs can be claimed for capital expenditure on R&D developments, assets used for R&D, and providing facilities for R&D. R&D capital allowances provide a 100% tax relief rate of the cost incurred and unlike regular capital allowances, they provide the tax reduction across a wide range of expenditure types.

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.

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.

ABOUT US - SCOTLAND'S KEY CAPITAL ALLOWANCES VALUERS

At Cavetta Consulting, our directors have considerable experience advising businesses, property investors, landlords and occupiers on all capital allowances implications that impact their business.
The Company's vision is "To produce robust tax saving valuations for businesses that are produced using state of the art methods, that are fully independent, reliable and HMRC Compliant thus allowing every business we work to be financially better off and help them realise their goals."
Our mission is "To help businesses become financially better off by helping then realise the value of the tax savings in their property that is not contained within an invoice"

Our values are:

- We only accept an appointment if we can make that client financially better off
- We do not accept an appointment if we feel an accountant can already do the job.
- We use the same process for every client

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