Key Issues

CAVETTA CONSULTING
Unlocking Capital Allowances

Leasing Commercial Property

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LET THERE BE TAX RELIEF!

When undertaking a new commercial lease, whether you are the lessor or lessee, it is essential that valuable tax reliefs be considered at the outset.

By doing so, either party has the opportunity of obtaining a much needed cash flow advantage, returning a higher return on his investment. The additional tax relief from capital allowances and land remediation relief, can provide each party with the opportunity to improve cash flow and free up capital to spend elsewhere in the business .

Tax relief is potentially available on the original purchase of the commercial letting. However, it is also potentially available on the refurbishment or fitting out of the property, which if considered at an early stage could significantly lower the bottom-line costs.

Additionally, thought should also be given by both parties to ensure any lease incentives are arranged to maximise the tax efficiency for both parties. The level of tax relief available will depend on the type of building and the specification of the fit out.

This tax relief is even more beneficial where the client takes up the tax advice at an early stage. By doing so, you can give yourself the opportunity of widening the tax reliefs available and embracing the 150% or 100% first year allowances available.

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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PROACTIVITY IS THE KEY TO SUCCESS!

The full benefit of capital allowances advice is only 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 is not realised.

To realise the maximum benefit, those undertaking these projects should note that:

- **Ensure that any lease incentive taken offers the best tax relief for your purposes;**
- **Ensure the deal and corporate structure is such that a claim for 150% Land Remediation or Derelict Land Relief can be made;**
- **Make sure that the applications, grants or third party payments can be done in a tax efficient way;**
- **Ensuring your construction team is aware of the type and level of information that will be required and ensuring that these are included in any contractual l arrangements with them;**
- **The design is reviewed in order to take full advantage of the benefits of claiming:**
  - **6% or 18% tax relief on design items, e.g. carpet instead of tiled floors.**
  - **Reviewing and value engineering proposals**
  - **Have they incurred expenditure repairing or improving these items**

SELLING NOTE:
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. FAILURE TO BE ABLE TO PAST ON A FIXED VALUE STATEMENT TO THE PURCHASER MAY MEAN A REDUCTION IN THE SALE PRICE ACHIEVABLE AS THE PURCHASER CAN NOT CLAIM THE RESULTANT TAX RELIEF.

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.

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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:

REFURBISHMENT OF PROPERTY

- **Working with designers to ensure that the items they include within the design, maximise the tax benefits.**
- **Reporting on further opportunities and running workshops where required.**
- **Providing advice as to 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.**

LETTING THE PROPERTY

- **Advising on tax efficient lease incentives, including reviewing clauses that are due to be included in the agreement for lease or heads of terms.**
- **Quantifying and financial modelling of the benefit of capital allowances.**
- **Where a long leasehold interest is granted in exchange for a premium, ensuring that all appropriate HMRC elections are made.**
- **Agreeing the value to be given to the tenant's fixtures that they have installed in advance of the termination of the lease in order to preserve the tax relief.**

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.

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 expenditures on R&D development, 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.