Key Issues

CAVETTA CONSULTING
Unlocking Capital Allowances

Commercial Property Portfolios

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WHAT CAN I SAY?

The most difficult thing in the Capital Advisors week is explaining that a client could have had their tax relief 20 years ago.

On many occasions we have found that clients have not been aware of the tax savings that they currently have hidden within their property portfolios.

On the purchase of a commercial building, a proportion of the purchase price is attributable towards tax deductible, plant and machinery or fixtures and fittings within the property. Similarly where the owner refurbishes, extends or alters that property for use in their business, tax relief was available.

Thankfully, there is no time limit to claiming these allowances, provided the property is still owned and used in a qualifying business.

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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ALL IS NOT LOST, TAX RELIEF CAN STILL BE ACHIEVED

For expenditure on property before April 2014, be that a purchase, new build, refurbishment of fitting out, the full benefit of capital allowances is still available. In general, you have 2 years after a corporate year end (or 31 January for income tax) following the due date of submission of a tax return to claim capital allowances for the year in which the expenditure was incurred. However, if this time frame has passed, the relief still may be enjoyed where the tax return is still open or if not carried forward to the next open year.

Although in general allowances are not lost, care must be taken around properties purchased after April 2014, as there could be a two year "window" to claim any available allowances.

Should you think you have untapped capital allowances we have experience of helping clients who find themselves in this position to realise the maximum benefit of capital allowances. In particular we can help by:

- **Carrying out historical due diligence checks and reviews of legal documents to establish a taxpayers entitlement to claim allowances;**
- **Performing a forensic survey of the property to determine the qualifying items at the time that the property was purchased;**
- **Carrying research to determine appropriate historical construction cost and land values;**
- **Reviewing the construction cost and development accounts of historical projects to ensure that the taxpayer has claimed their full entitlement of capital allowances;**
- **Review of historical fixed asset registers;**
- **Review of historical planning applications in order to understand developments that have taken place at the property.**

PROPERTY MANAGMENT 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.

Adding Value

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HOW WE CAN HELP ADD VALUE TO YOUR PROJECT

At Ċavetta Consulting, our objective is to provide support to our clients, allowing them to add value to their business. The proactive services (the best medium for maximising tax relief) that we provide include:

- **Reviewing clauses within the purchase agreement to ensure that they allow the purchaser to make a claim for capital allowances if desired.**
- **Reviewing replies to CPSE to ensure that the responses provided (or received) are sufficient to ensure that a successful claim for capital allowances can be made going forward.**
- **Reviewing the capital allowances position before the contract for sale is completed. Ensuring that the vendor completes all the appropriate elections in accordance with the Capital Allowances Act 2001.**
- **Performing a capital allowances due diligence exercise, and establishing whether a claim for capital allowances has been made. HM Revenue and Customs may require evidence of the capital allowances claim history, of the property, going back to 24 July 1996.**
- **Where we have established that the you are entitled to make a claim for capital allowances in relation to the fixtures contained within the property, we can carry out a claim for capital allowances based on an apportionment of the purchase price in accordance with S562 Capital Allowances Act 2001. This exercise will require measuring the property, estimating the replacement cost of the building and carrying out a valuation of the land.**
- **Perform the relevant calculations where the property has been disposed of under a sale and leaseback transaction.**
- **Carry out a visual inspection of the property to verify the plant and machinery contained within the property.**

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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.