MOORE STEPHENS

Helping you maximise your capital allowances

Capital allowances

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Helping you maximise your capital allowances

Capital allowances have become increasingly complex, and you need to be confident you are maximising the capital allowances you are entitled to. This is where we can help.

In the UK, many types of capital expenditure qualify for capital allowances, a range of tax reliefs that allow the cost of assets to be written off against taxable profits. They take the place of the depreciation charge for fixed assets which is not allowable for tax purposes. There are different types of capital allowances and for each allowance, there are special rules to calculate how much relief you can claim. But the rules can be complex.

While claiming capital allowances on vehicles, computers and furniture and equipment is relatively straight forward, dealing with expenditure on the fit out, refurbishment, extension or construction of buildings requires a combination of surveying, property and tax skill sets to maximise the available tax relief. And over the last few years, the legislation has become increasingly complex with the addition of new forms of capital allowances and the removal or amendment of other allowances.

Forms of capital allowances

Capital allowances are available to UK taxpayers in the following forms:

- plant and machinery allowances;
- integral features;
- long life assets;
- short life assets;
- enhanced capital allowances;
- business premises renovation allowances;
- research and development allowances; and
- annual investment allowances.

In addition, land remediation relief and revenue deductions may be claimed on various forms of expenditure.

What levels are available?

Establishing what levels of capital allowances are available depends on a number of factors including:

The nature of the expenditure

- new build or extension;
- fit out;
- refurbishment; and
- acquisition of a new or second hand property.

The nature of the claimant

- owner or occupier;
- property investor;
- tenant; and
- type of business e.g. care home, hotel, professional services.

What qualifies?

To claim capital allowances, the claimant should have an interest in the land and incur capital expenditure. The interest in the land could be anything from a freehold interest to a licence to occupy.

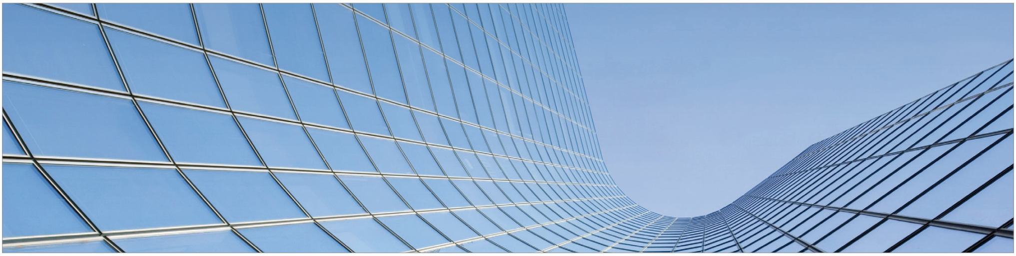
The capital expenditure could be on a new building, extension, refurbishment, fit out or even acquisition of a property.

When considering the availability of capital allowances on the acquisition of a second hand building, in addition to understanding your own eligibility, it is also important to understand any previous owner's capital allowances history.

When are they available?

Whilst the Capital Allowances Act 2001 (CAA2001) attempts to identify qualifying assets, the list is open to interpretation and by no means is it exhaustive. Over the years various legal cases have sought to clarify eligibility issues, nevertheless, there remains a high degree of ambiguity and interpretation. For plant and machinery, while the definition of machinery is easier to understand, the definition of plant can depend on the nature of a claimants' trade. A simple example may be that in the leisure or retail sector decorative assets will qualify whilst the same cannot be said in an office environment.

The following items of expenditure are deemed to qualify for a form of capital allowances:



- electrical systems;
- cold water systems;
- heating, ventilation and air conditioning systems;
- lifts, hoists and escalators;
- external solar shading;
- removal or demolition of existing plant or machinery; and
- works incidental to the installation of plant or machinery to existing buildings.

Consideration should be given to the claimant's trade, purpose or function of the asset before including it as a qualifying expenditure and accordingly this may require specialist input.

Second hand acquisitions

Capital allowances are also available on the acquisition of an existing property. Provided that no previous vendor has made and retained the right to claim the capital allowances, which should become apparent during due diligence. The basis of a subsequent owner of a property will be entitled to value the assets based on their reconstruction cost around the time of acquisition. Therefore do not ignore capital allowances because you believe the building, and thus qualifying assets, are too old.

Mandatory pooling

Since April 2014 changes to the capital allowances legislation make it imperative that the subject is raised during the purchase or sale of a property, not to do so could result in a loss of capital allowances. In order to safeguard the capital allowances it is necessary to enter into a CAA2001 s.198 election and ensure appropriate contract wording is providing within the sale and purchase agreement.

How Moore Stephens can help

You need to be confident that you are maximising the capital allowances you are entitled to. You need an advisor who can leverage their knowledge to meet your needs and with experience in:

- the complex tax issues;
- the construction and building process;
- land valuation;
- due diligence reviews; and
- negotiations with HMRC and their agents.

This is where we can help. Our methodology is proven to maximise claimants' capital allowances by fully understanding the trade of the claimant, the expenditure incurred and then applying the skill sets of a chartered surveyor with the relevant tax knowledge to present a fully disclosed capital allowances valuation.

We do not apply a 'one size fits all' approach, but offer bespoke solutions to bespoke situations. In most instances our fees are contingency-based. If no capital allowances are identified, valued and secured, you will not incur any costs.

Case studies

Because each case is unique, different levels of allowances may be achieved.

Recent examples include:

- a 32 bed, new build care home – 48% of the development costs;
- a 72 bed, new build care home – 45% of the development costs;
- acquisition of a design and build, owner occupied industrial unit – 24% of the purchase costs ;
- acquisition of a modern office building by property investor – 25% of purchase price;
- dental surgery fit out – 67% of fit out costs; and
- acquisition of a public house – 36% of purchase price.

About Moore Stephens

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Our clients range from individuals and entrepreneurs, to large organisations and complex international businesses. We partner with them, support their aspirations and contribute to their success. In-depth understanding of our clients allows us to deliver focused accounting and advisory solutions, both locally and globally.

Clients have access to bespoke services and solutions, including audit and assurance, business support and outsourcing, payroll and employers' support, business and personal tax, governance and risk, corporate finance, forensic accounting, wealth management, IT consultancy, and restructuring and insolvency.

Our success stems from our industry focus, which enables us to provide an innovative and personal service to our clients in a range of sectors.

Moore Stephens globally

Moore Stephens International is a top ten global accountancy and consulting network, headquartered in London. With fees of over US$2.66 billion and offices in 106 countries, clients have access to the resources and capabilities to meet their global needs.

By combining local expertise and experience with the breadth of our UK and worldwide networks, clients can be confident that, whatever their requirement, Moore Stephens provides the right solution to their local, national and international needs.

Contact information

For further information, please contact your normal Moore Stephens' partner.

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