PKF FRANCISCLARK

Chartered accountants & business advisers

Capital Allowances

Building Refurbishment, Extension or New Build

The cost of refurbishing a property, building an extension or constructing a new build can be substantial. Tax relief is available on certain capital expenditure within a building in the form of capital allowances.

Here is an overview of the types of expenditure which qualify for allowances and the tax relief available.

Key reliefs

The key reliefs available are:

- 100% tax relief for expenditure on "like for like" repairs
- 100% tax relief for expenditure within £200,000 Annual Investment Allowance (AIA)
- 18% writing down allowances for plant and machinery (in excess of AIA)
- 8% writing down allowances for integral features (in excess of AIA)
- Tax relief available for thermal insulation (8% writing down allowance)
- Potential for 100% tax relief on 'green' technologies
- Valuable allowances for converting/ renovating unused business premises
- Additional 50% deduction allowed for contaminated land remediation costs

Repair of existing property - 100% relief

The first question to ask in a refurbishment project is whether any of the expenditure would qualify as a "like-for-like" repair of part of an asset (e.g. replacement windows). If this is the case then it may be possible to secure 100% tax relief for this expenditure when it is incurred.

However, substantial refurbishments, or those where there is an improvement to an asset, will often be treated as capital. Unless capital allowances are available then there will be no tax relief on this expenditure until the building is sold. This means that identifying all assets qualifying for allowances is an important exercise as it can achieve substantial tax relief and assist with cash flow.

Annual Investment Allowance (AIA) - 100% relief

The AIA provides a 100% deduction for the cost of plant and machinery or integral features up to an annual limit. The annual limit was £500,000 from April 2014 until 31 December 2015, when it decreased to £200,000. Where a business has an accounting period that straddles the date of change the allowances have to be apportioned on a time basis. Particular care needs to be taken for year ends which straddle 31 December 2015 as your allowance may be restricted.

For expenditure in excess of the AIA, writing down allowances are available at 18% per annum on plant and machinery and 8% on integral features. It is therefore beneficial to plan the timing of expenditure to fall within the AIA otherwise tax relief will be far slower.

One potential solution is to ensure that some of the expenditure qualifies for other enhanced capital allowances, which can be claimed in addition to the AIA (see 'green technology' below).

Plant & machinery - 18% writing down allowance

Identifying plant and machinery items at an early stage is key to maximising tax relief. Common items qualifying for allowances are:

- Machinery
- Manufacturing or processing equipment, storage equipment (including cold rooms)
- Displays, counters, checkouts
- Cookers, washing machines, dishwashers, refrigerators, etc
- Sound insulation (trading purpose test)
- Computer, telecommunications and surveillance systems (including wiring)
- Fire alarm systems, sprinklers
- Burglar alarm systems
- Moveable partition walls
- Decorative assets provided for the enjoyment of the public (e.g. in a hotel or restaurant)
- Signs
- Swimming pools
- Caravans
- Gas & sewerage provided mainly to meet the requirements of the trade

PKF Francis Clark has eight offices in the South West: Exeter, New Forest, Plymouth, Poole, Salisbury, Taunton, Torquay and Truro. Please visit www.pkf-francisclark.co.uk for contact details of your nearest office.

Integral features - 8% writing down allowance

There is scope to claim plant and machinery allowances for expenditure on certain specified assets called "integral features" of a building.

The following are integral features:

- Electrical systems, including general wiring and lighting systems
- Cold water systems
- Space or water heating systems, powered systems of ventilation, air cooling or air purification
- Lifts, escalators and moving walkways
- External solar shading

Solar panels also qualify for relief at the 8% rate.

Thermal insulation - 8% writing down allowance

It is also possible to claim capital allowances for expenditure on thermal insulation added to an existing building. This includes things like roof lining, double-glazing, draught exclusion and cavity wall filling.

'Green' technology - 100% relief

A significant number of our clients are able to claim 100% enhanced initial allowances for expenditure incurred on energy-saving or water-efficient plant. In order to qualify the particular make and model of the product must be included on the technology lists.

Examples of qualifying items include:

- Pipe insulation
- Refrigeration equipment
- Radiant and warm air heaters
- Automatic monitoring and targeting equipment
- Heating, ventilation and air conditioning zone controls
- White LED lighting
- Combined heat & power schemes
- Technologies that reduce water use or improve water quality

The 100% tax relief on these items is in addition to the 100% AIA limit, so can be particularly useful in a year with a high capital spend.

It is possible for loss-making companies to claim a tax credit on expenditure on 'green' technologies, which may be attractive when cash flow is a limiting factor.

Business Premises Renovation Allowance (BPRA) - 100% relief

There are special allowances available which provide for a 100% enhanced allowance where unused business premises are converted or renovated. In order to qualify the premises must have been vacant for at least a year before works begin and be located in a designated 'disadvantaged area'.

Contaminated land remediation costs

Expenditure on remediating contaminated land would generally be disallowed as capital expenditure. However, there is a special form of relief which allows companies not only to deduct the cost of qualifying remediation work when it is incurred, but also to achieve a further 50% 'super' trading deduction.

Qualifying costs include employment costs, materials and sub-contractors. Qualifying remediation work may include the removal of asbestos or Japanese Knotweed.

Purchase or sale of property

If you purchase or sell a property which contains fixtures (e.g. kitchen fittings, electrical or heating systems), it is now necessary to formally agree the proportion of the purchase price to be attributed to those fixtures for capital allowances purposes. This mutual agreement is normally achieved by means of a joint tax election and this must be factored into the commercial negotiations on any property transaction.

New rules which came into force from April 2014 mean that a purchaser will only be able to claim capital allowances on fixtures where the items of expenditure have been included in a capital allowance 'pool' by the seller.

Further planning points

- It is also possible to claim allowances on the cost of building alterations connected with the installation of plant or machinery. This could include the strengthening of a floor in order to cope with the weight of a new machine, or building alteration to house a new lift.
- Capital allowances are available for furnished holiday lets, staff accommodation and specific common parts of a residential building block.
- If you own a commercial building and do not think that all capital allowances have been claimed then we can review the position to identify the scope and potential value of a claim.

How we can help

The rules for capital allowances can be complex. We can help by identifying qualifying build costs and maximise the tax relief available to you or your business. Please do contact us if you would like further advice.

Damian Lannon
Tax Partner, Exeter
01392 667000
damian.lannon@pkf-francisclark.co.uk

Ian Pring
Tax Consultant, Plymouth
01752 301010
ian.pring@pkf-francisclark.co.uk

Paul O'Connell
Tax Partner, Salisbury
01722 337661
paul.oconnell@pkf-francisclark.co.uk

Heather Britton
Tax Director, Taunton
01823 275925
heather.britton@pkf-francisclark.co.uk

Dave Williams
Tax Partner, Torquay
01803 320100
dave.williams@pkf-francisclark.co.uk

Scott Bentley
Partner, Truro
01872 276477
scott.bentley@pkf-francisclark.co.uk

Gaynor Fisher
Senior Tax Manager, New Forest
01425 610166
gaynor.fisher@pkf-francisclark.co.uk

Reviewed 31/01/2018

PKF Francis Clark has eight offices in the South West: Exeter, New Forest, Plymouth, Poole, Salisbury, Taunton, Torquay and Truro. Please visit www.pkf-francisclark.co.uk for contact details of your nearest office.