

# Capital Allowance Valuations



Robertson | Grey

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## Are you a property owner missing an opportunity to reduce your tax liability? A Capital Allowance Valuation could improve your cash flow!

### An Introduction to Capital Allowances

Capital allowances are a tax relief designed to allow the cost of some of your company, organisation or individuals assets to be written off against its taxable profits. They take the place of the depreciation shown in the financial accounts, which isn't allowable for Tax purposes.

There are different types of capital allowances. For each allowance, there are special rules to calculate how much, if any, relief you can claim. You have to follow these rules, rather than the method used in your accounts for calculating depreciation.

A large percentage of the purchase cost of a building can relate to Capital Allowances with the owner of the property being fully entitled to submit a claim for the these allowances, even if the property was acquired years ago, which can have a positive effect on tax liabilities. For typical plant & machinery per-

centage levels please refer to Table 1 overleaf.

- Most companies, partnerships or individuals are able to claim an Annual Investment Allowance (AIA) on most plant and machinery. This provides immediate 100% tax relief on qualifying annual expenditure up to £100,000. It is proposed that the limit will be reduced to £25,000 in April 2012. Note that AIA's can only be claimed in the year that the expenditure is incurred (meaning a claim for AIA's may not be possible on historic purchases).
- Expenditure on all items of plant and machinery are pooled rather than each item being dealt with separately with most items allocated to a general pool. A writing down allowance (WDA) on the general pool of 20% is available on any expenditure incurred in the current period not covered by the AIA or not eligible for AIA as well as on any balance of expenditure remaining from earlier periods. It is proposed that the WDA is reduced to 18% in 2012.
- Certain expenditure on some fixtures, known as Integral Features (e.g. lighting, air conditioning, heating etc), is only eligible for a 10% WDA so is allocated to a separate 'special 10% rate pool' It is proposed that the WDA is reduced to 8% in 2012.
- Expenditure on Enhanced Capital Allowances is eligible for a 100% WDA and relates to energy saving plant and machinery included on the Energy Technology List).

### How do I know if a claim has already been made?

- Was the cost of plant & machinery (fixtures and fittings) separated out in the property transaction (in addition to moveable items)?
- Has a detailed survey / inspection of the property been undertaken?

**If this has not been done it is possible that you have unclaimed allowances!**

### What information do I need to provide to start the process?

#### Essential

- Breakdown of components (building, goodwill, plant & machinery & fixtures if known);
- Date of purchase;
- Trade Type;
- Who owns the building and the legal form of the business claiming (company, partnership, sole-trader);
- Copies or any fixtures elections already made or confirmation that none have been;
- If leased, copies of any elections re who gets allowances (landlord or tenant) or confirmation that none have been made;
- Confirmation of allowances claimed relating to fixtures or confirmation it is none.

#### Preferable

- Scaled floor plans of the property;
- Completion statement;
- Building sales particulars;
- Sales contract;
- Lease details.

## What type of property does this apply to?

All properties other than those that fall within the definition of a 'dwelling house' (whether used in your own business or let out).

A dwelling house is a building, or part of a building; its distinctive characteristic is its ability to afford to those who use it the facilities required for day-to-day private domestic existence.

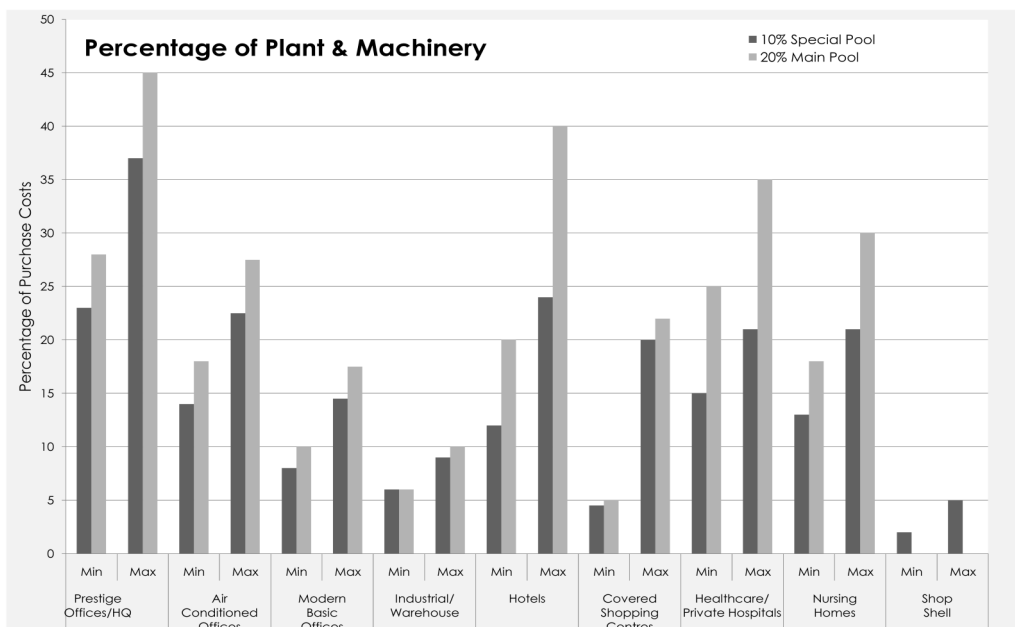
A person's second or holiday home accommodation used for holiday letting is a dwelling house. A block of flats is not a dwelling house although the individual flats within the block may be. A hospital, a prison, nursing home or hotel (run as a trade and offering services, whether by the owner-occupier or by a tenant) are not dwelling

houses.

A University hall of residence may be one of the most difficult types of premises to decide because there are so many variations in student accommodation. On the one hand, an educational establishment that provides on-site accommodation purely for its own students, where, for example, the kitchen and dining facilities are physically separate from the study-bedrooms and may not

always be accessible to the students, is probably an institution, rather than a 'dwelling-house'. But on the other hand, cluster flats or houses in multiple occupation, that provide the facilities necessary for day-to-day private domestic existence (such as bedrooms with en-suite facilities and a shared or communal kitchen/diner and sitting room) are dwelling houses.

The common parts (for example the stairs and lifts) of a building which contains two or more dwelling houses will not, however, comprise a dwelling house and as such a claim may be possible on those common parts.



## Is there a lower limit in terms of the purchase price for a property?

Many practices will only undertake capital allowance valuations on properties where the purchase price was greater than £500,000. At Robertson Grey we will review the merits of each property transaction as making a claim for a property with a lower cost which inherently retains high levels of plant and machinery could be as beneficial as high value properties with lower retained levels of plant and machinery.

**Case Study** - Our client purchased a modern two storey detached steel framed office building for £700,000 in April 2009. Robertson Grey were appointed in October 2010 to undertake an inspection of the property and prepare a Capital Allowance Valuation. Robertson Grey identified unclaimed Capital Allowances of **£181,670.52** within the building which comprised of £40,510 of Plant & Machinery (20% WDA) and £141,160 as Integral Features (10% WDA). Our client reduced his taxable income in the 2009/2010 tax year by £112,218 (£100,000 AIA and £12,218 WDA on the balance).

## What is the Fee for having a Capital Allowance Valuation prepared?

Robertson Grey charge a fee based on a percentage of the identified unclaimed capital allowances for each property instructed on.

**There is no survey fee therefore there will be no fee payable if there are no capital allowances identified.**

## Am I eligible to make a claim?

**As long as.....**

- You are a UK tax payer;
- You still own the building in question.