

# Capital Allowances for Care Homes

Capital Allowances tax reliefs offer significant savings for investors, owners, and operators of residential care and nursing homes.

The most valuable relief is on the building systems and fit-out, which are together defined as Fixed Plant & Machinery.

Other reliefs available:

- Structures & Buildings Allowance (SBA)
- Remediation of contamination e.g. asbestos removal
- Repairs qualifying as revenue expenditure

Typically in a new-build around 1/3 of the construction cost will qualify as plant & machinery - but in refurbishments this might rise to as much as 3/4 of the cost being tax-relieved. This is because much of the expenditure will be on qualifying interior works.

## **2023 Budget measures - Full Expensing**

For three years from April 1st 2023 corporate taxpayers will benefit from the following: -

- Full Expensing 100% of the value of Main Pool items (mostly business fit-out)
- 50% first year allowance for Special Rate Pool (heating, cooling, hot & cold water, electrical systems, lifts & escalators)
- Annual Investment Allowance (AIA) of £1,000,000
- Structures & Buildings Allowance applies to other general construction work (excluding external works).

Early consideration of potential tax reliefs can improve viability, show better returns on capital and be a useful tool in cost/benefit analysis of planned energy improvements.

## **Landlord & tenant negotiations**

For incentives or contributions, the party incurring the cost should endeavour to ensure their expenditure is documented as paying for items qualifying for relief. A non-specific payment will gain no allowances.

Our preliminary reviews are provided at no cost and fees are usually performance-based. David Rees has been responsible for over 100 claims in the care sector.

**Contact us at:**

**E:** [davidrees@afilia.co.uk](mailto:davidrees@afilia.co.uk)

**T:** 07736 900172

**www.**[afilia.co.uk](http://afilia.co.uk)

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Capital Allowances



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## Illustrations

### New care home build

Development build cost - £14,177,734

Plant & Machinery Allowances (P&M):-

Special Rate Pool - £2,700,000

Main Pool - £1,800,000

Percentage of total cost qualifying as P&M - 32%

First year allowances including AIA - £2,952,501

**First year tax saving at 25% tax rate - £738,125**

Percentage of total cost saved in First Year - 5.2%

Structures & Buildings Allowance (SBA) is also available on the cost of the building structure excluding external works.

The SBA is claimed over 30 years at a rate of 3% per annum.

Value of total SBA claim - £8,583,367

Annual SBA allowance claimed at 3% - £257,501

**Total of all tax savings over time - £3,405,841**

Percentage of cost saved over time including SBA - 24%

### Care home extension & refurb

Total project cost - £1,398,817

Plant & Machinery Allowances (P&M):-

Special Rate Pool - £383,941

Main Pool - £245,784

Qualifying repairs - £58,848

Percentage of total cost qualifying as P&M - 45%

First year allowances including AIA - £688,573

**First year tax saving at 25% tax rate - £172,143**

Percentage of total cost saved in First Year - 12%

Structures & Buildings Allowance (SBA) is also available on the cost of the building structure excluding external works.

The SBA is claimed over 30 years at a rate of 3% per annum.

Value of total SBA claim - £675,995

Annual SBA allowance claimed at 3% - £27,280

**Total of all tax savings over time - £346,177**

Percentage of cost saved over time including SBA - 24%

### First year claims under Full Expensing

Available to corporate taxpayers until March 2026:-

- 50% of the Special Rate Pool (SRP)
- Full Expensing of 100% of the value of the Main Pool
- £1m Annual Investment Allowance (covers rest of SRP)
- Structures & Buildings Allowance

For the refurbishment there are also qualifying repairs.

A claim for remediation of contamination is possible.

Excess Year 1 allowances will roll forward until used up.

### Pre-planning tax reliefs

Capital Allowances are often left to be post-project diligence but with the scale of the potential savings an early review makes good business sense.

It means that the bottom-line cost of alternative build choices can be evaluated, and also other project options such as leasing or purchasing fit-out items.

Factoring in the savings may enable a higher standard of finishes to be achieved without an actual budget increase.

### Energy efficiency

To protect future investment value, it will become important to have regard to Minimum Energy Efficiency Standards.

Changes to minimum EPC levels have been held back by the government but are inevitable given that commercial property accounts for 36% of carbon emissions. Capital Allowances will help mitigate the costs of building upgrades and help protect capital value in future disposals.

### What qualifies?

All building systems: heating/cooling, hot/cold water, electrical systems, lifts.

All fit-out: a multitude of items from toilets and tea points, to data systems and doormats.

Allowances are written down over time as a headline deduction from gross profits.

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