Capital Allowances for Motor Dealerships

The construction or refurbishment of a motor dealership will give rise to the opportunity to claim significant tax relief in the form of Capital Allowances.

The most valuable relief is for the Fixed Plant & Machinery (P&M) which is divided into two categories -
Special Rate Pool - comprising heating/cooling, hot/cold water, electrical systems, lifts and escalators.
Main Pool - all of the fit-out within the building associated with the business.

With high quality showroom finishes, extensive workshops, back of house offices and other facilities, the motor retail sector particularly benefits from these reliefs.

Capital Allowances are typically treated as post-project tax diligence undertaken by accountants usually with the help of a specialist surveyor. More challenging trading conditions have changed the perspective on tax savings, moving them upstream to be considered at the planning stage. Their value may be factored into financial projections - banks often see tax savings as a financial safety net within a lending proposal. To investors it will also demonstrate a higher return on capital employed.

Typically in a new construction around 35% of the build cost of a dealership is likely to become tax-relieved. In refurbishments this can rise to 50-75% of budget as most of the expenditure is on internal re-fit.

Generous first year reliefs mean that in many cases all P&M is claimed in the first year of trading.

An indicative view and guidance on a proposed scheme is provided at no cost, and where appointed our fees are usually performance-based.

The Afilia team have dealt with claims for allowances totalling over £600m and have extensive motor sector experience of around 50 dealership projects with national and regional motor retail groups.

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New Hyundai dealership

Construction cost - £2,127,559

Plant & Machinery Allowances (P&M) :-
Special Rate Pool - £155,512
Main Pool - £545,635

First year P&M claim (incl. Full Expensing) - £701,147

Tax saved at 25% - £175,287

Percentage of cost qualifying as P&M - 33%

Percentage of build cost saved in Year 1 - 8.0%

Structures and Buildings Allowance (SBA) also claimed on balance of construction cost but excluding external works

Total SBA - £1,281,412

Claimed at a rate of 3% p.a. = £38,442 p.a.

Annual SBA tax saving at 25% tax rate - £9,611

Total tax saved from all allowances over time - £495,640

Mercedes-Benz refurbishment

Project cost - £1,774,830

Plant & Machinery Allowances (P&M) :-
Special Rate Pool - £443,708
Main Pool - £767,031

First year P&M claim (incl. Full Expensing) - £1,210,738

Tax saved at 25% - £302,685

Percentage of cost qualifying as P&M - 68%

Percentage of project cost saved in Year 1 - 17%

Structures and Buildings Allowance (SBA) also claimed on balance of construction cost - no external works to exclude

Total SBA - £509,092

SBA claimed at a rate of 3% p.a. - £15,273 p.a.

Annual SBA tax saving at 25% tax rate- £3,818

Total tax saved from all allowances over time - £429,958

First year tax savings

The temporary tax reliefs available until 2026 include a first year allowance of 50% of the Special Rate Pool. The remainder can then be tax-relieved under the Annual Investment Allowance which was set permanently at £1m per annum in 2023. The Main Pool items may all be claimed in the first year claim under the heading of “Full Expensing”. Excess allowances will roll forward on account until used up.

New build or refurbishment?

The proportion of the total cost becoming tax relief is considerably different between the two examples. Plant & Machinery is the high value end of Capital Allowances and in the new build it forms 33% of the budget but in the refurbishment it climbs to 68%.

The difference is simple in that in a refurbishment there is far less expenditure on the building structure and the majority of the spend is on replacing building systems and finishes. Accordingly, it is more tax efficient to recycle an existing structure than to replace it.

Pre-planning tax reliefs

Having an early review of potential tax savings can greatly help in determining the project specification and may well enable a higher standard of finishes within the existing budget.

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.

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