Afilia
Capital Allowances

2023 Capital Allowances headline briefing for Accountants

Keeping the bigger picture in focus

Introduction - the scope of the relief

If there is one area of the tax regime that can be almost guaranteed an inclusion in the annual Budget Statement - it will be Capital Allowances - but frequent changes undermine public understanding and reinforce an erroneous belief that Capital Allowances are too complex to be readily understood. Many taxpayers accordingly do not take the full benefit of what is available - an effect that may become more marked as we move further into an era driven by energy performance. Allowances by definition apply to any commercial property - only ordinary dwellings are outside the scope for relief - but there are opportunities for claims on the common parts of residential blocks with lifts or heating plant, and also serviced apartments, or furnished holiday lets.

What qualifies?

Plant & Machinery Special Rate Pool:
Hot & cold water, heating & cooling, electrical systems, lifts and escalators - claimed at 6% per annum
Plant & Machinery Main or General Pool:
All the building systems and fit-out related to the trade carried out - claimed at 18% per annum
Structures and Buildings Allowances:
Other structural works (post 2019) - written down at 3% per annum.

AIA and temporary tax reliefs

In most cases the writing down rates of 6 & 18% will be irrelevant because all of the value will be claimed in the first year through the Annual Investment Allowance. As most taxpayers will be entitled to an AIA of £1m - this will generally cover all plant & machinery allowances for the majority of projects.
The Temporary Tax Reliefs for corporate taxpayers, apply until 2026:-
- 50% of new Special Rate Pool expenditure may be claimed in the first year. If the client has unused Annual Investment Allowance (AIA) - this can be applied to the other 50%.
- The entirety of the Main Pool expenditure will be claimed in Year 1 under the heading of “Full Expensing.”

Capital Improvements

Where a client undertakes a renovation or refurbishment - this will contain significant tax savings. Typically 50-75% of a budget will qualify as fixed Plant & Machinery or repairs, with the balance being allocated to the Structures and Buildings Allowance.
In most instances Capital Allowances are not considered at the design stage but left to be post-project diligence. An early review, however, might show 10-15% of the project cost being recouped through tax relief in the first year. This can help stretch a budget to enable a higher specification. The benefits are obvious if this reflects in the marketability of the building and its achievable rental.

Section 25 works

These are for enabling works associated with the installation of Plant & Machinery. Some examples are:-
- Removal of a wall to allow access for removal and installation of new plant
- Building new lift shafts in an older building to increase capacity
- Installing additional structural support within a Listed Building to carry the weight of new air conditioning.

New-builds

Developers do not claim Capital Allowances as the build cost is part of their business cost, and deducted from their trading profit upon sale of the completed asset. The purchaser will be entitled to claim allowances as a price apportionment of the sale figure. As an example for an office, 15-25% of the cost might become tax relief.

Purchases of second-hand buildings

Today a purchase of an existing buildings from another taxpayer has only a limited possibility for a claim. Nevertheless, it is important to make careful enquiries of a vendor in case they have undertaken improvements but failed to establish a claim for CAs. Before contracts are exchanged it will be possible to negotiate the transfer by an election of unused allowances. After exchange a vendor will be less likely to want to assist.
N.B. a purchase from a non-taxpayer - i.e. a pension fund, charity, or government body - is likely to be a claim opportunity.

Joint ventures

Without pre-planning, a joint venture will mean a division of the entitlement to claim allowances on a pro-rata basis to the value of the contributions made to the project.

If one of the parties pays more tax (or one is a non-taxpayer) then carefully defining who pays for what can protect the entitlement to claim.

Energy performance

Changes to Minimum Energy Efficiency Standards (MEES), were expected last year but have been delayed by the government. It would nevertheless be sensible to assume that raising the sanction level to 'C' and then 'B' will happen within the foreseeable future. Improving energy performance is, of course, costly and factoring in Capital Allowances will help extend a budget to achieve the best outcome.

Disposals

The normal process in selling an asset is to enter an election with the purchaser to set the value of the fixed plant & machinery, usually at the current tax-written down value. It is nevertheless up to the parties to negotiate a figure, bearing in mind that a higher figure will cause the vendor to repay some of their tax savings, whilst a lower figure will enable them to retain unused relief - often done by portfolio owners.

Office refurbishment example

The example below shows the savings available to a corporate taxpayer undertaking extensive refurbishment of an office building.
This might typically include replacement of air conditioning plant and upgrading the lift capacity.

Office refurbishment illustration	
Construction budget	£2.5m
Plant & Machinery content	£1.5m
-Special Rate Pool	£900,000
-Main Pool	£600,000
Year 1 tax calculation:-	
Special Rate Pool 50% Year 1 allowance	£450,000
Plus AIA for the other 50%	£450,000
Main Pool claimed under Full Expensing	£600,000
Repairs	£150,000
SBA - £850,000 annual claim at 3%	£25,500
Total year 1 claim	£1,675,500
Tax saved at 25% rate	£418,875
Percentage of budget saved in Year 1	17%

Surgery refurbishment example

Because of the extensive level of fit-out, a refurbishment of a GP surgery will always contain a significant proportion qualifying as plant & machinery.
Although as a partnership GPs will not be able to use the temporary tax reliefs available to corporates, they do have an AIA and their 40% tax rate more than compensates for the difference.

Surgery refurbishment illustration	
Construction budget	£400,000
Plant & Machinery content	£250,000
Year 1 tax calculation:-	
AIA	£250,000
Repairs	£50,000
SBA - annual claim at 3%	£3,000
Total year 1 claim	£303,000
Tax saved at 40% rate	£121,200
Percentage of budget saved in Year 1	30%

Our approach to pre-planning CAs

In both examples the value of first year savings will make a real contribution to viability. Our preliminary reviews are provided at no cost to identify the level of potential tax savings and ensure a tax-friendly approach is adopted and entitlements are protected. Tax relief should not be the tail that wags the dog - but there are instances where modest changes can help optimise the savings - for example in offices, the use of plenum ceilings or demountable partitioning systems.

About us

Between us the team at Afilia Capital Allowances have over fifty years of shared experience in advising on projects and preparing claims for Capital Allowances. All initial advice is provided at no cost and fees for certifications of allowances on completed projects can be performance-related or fixed.

Disclaimer: this article is not a substitute for professional advice

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