

Who wants to be an AIA millionaire?

Afilia

Capital Allowances

Incorporating DavidRees.Co

Temporary increase to the Annual Investment Allowance to £1m - Example of the numbers - Value of pre-planning - Other tax saving opportunities - Repairs - Remediation - Removal of the Enhanced Capital Allowances scheme - Structures & Buildings Allowance introduced - Completing projects while the £1m AIA is available

Temporary increase in the AIA

It is difficult to know how much consultation there was around the announcement in November's Budget statement that there would be a temporary increase in the Annual Investment Allowance for two years up to the level of £1m - and so for most of us it came as a surprise. It is presumably intended to be a short-term stimulus to try and overcome the potential disruption resulting from Brexit. Plainly for the large corporate sector, this might still not be much of an economic kickstart, but for the broad swathe of commercial property it will be a welcome benefit. The only downside is that property projects are notoriously long-winded - particularly if planning consents are required - and so a two year time window to complete a project may not be that long.

What the numbers look like

A common problem for property professionals is that in not dealing with Capital Allowances on a regular basis means that as well as not having a clear understanding of the extent of qualification, it also means the financial benefit is opaque. A possible £1m in tax relief to be claimed in the year of the project could make a dramatic difference to overall viability of a project and to the returns on capital invested.

Starting upstream

Having an initial review of the scale of the potential savings is completely straightforward and requires only outline information. The majority of the cost of a refurbishment will often qualify for tax relief in

one way or another - sometimes as much as 75% of a budget may be offset against tax.

To give a simple example - take an office upgrade costing £1m where 60% of that qualifies for Capital Allowances covering new plant & machinery and most of the fitting-out. So of the budget of £1m then £600k becomes tax relief in the year of the expenditure - generating tax savings of £114,000 for a company or £240,000 for a partnership or individual taxpayer.

Given that during the specification process or value engineering

assessments, the amounts saved are often fractions of a per cent - then these are dwarfed by the potential tax savings. In the above example the company has saved 11.4% of the budget via a reduced tax bill. Meanwhile the partnership's savings are a massive 24%

of the project cost.

Other tax savings - repairs

As well as the expenditure qualifying for Capital Allowances, there will potentially be a range of other tax-saving opportunities.

The first in value terms will typically be repairs.

Where an upgrade does not involve remodelling of an interior layout then much of the expenditure will become allowable as revenue expense. This does require careful consideration as any change to the property will be viewed by HMRC as an improvement and not a repair.

Remediation

Where the ownership entity for the project is a company then if the building has contamination

AIA benefits in an office upgrade

Cost of project	£1,000,000
Qualifying for CAs	£600,000
Current year tax savings:	
Company at 19%	£114,000
Partnership at 40%	£240,000

issues, then with the appropriate support of an expert report qualifying the asbestos as dangerous, the cost of removal and restitution will become tax-relieved at a rate of 150% of the cost incurred.

The ECA scheme

The same Budget speech also announced the termination of the Enhanced Capital Allowances (ECA) scheme from the end of 2020 - which is an unfortunate irony, slightly undermining the boosted AIA.

Nevertheless in most projects, the amount qualifying for ECAs is not huge and the scale of the AIA at £1m means that generally the entire claim for Capital Allowances for fixed plant & machinery will be covered.

Nevertheless in the next two years until the scheme's removal, then particularly on larger projects which may exceed the £1m AIA level, it will still be worthwhile going for ECA reliefs. The other benefit is the lower running costs that will result from installing ECA compliant equipment, and a possible uplift to the building's Energy Performance Certificate rating. It is also worth noting that the Energy Technology List - on which the ECA scheme is based - will be continued by the Carbon Trust as a resource for those seeking to research the most efficient equipment choices.

The new Structures and Building Allowance

It is commonplace in many countries to have a general depreciation allowance for commercial property. In the UK until 2010 Industrial and Hotel Buildings Allowances provided a tax relief against the whole cost of an asset, which was written down on a straight-line basis over 25 years at 4% per annum. It was still common practice to undertake a cost segregation exercise to claim Capital Allowances on the fixed plant & machinery content of the building in order to benefit from the faster writing-down rates available.

The newly-announced Structures and Building Allowance means that expenditure on buildings not qualifying as plant & machinery can be written

down over fifty years. Combined with plant & machinery it does effectively mean that all expenditure will qualify for tax relief but part will have a long write-down.



A positive course of action

Anyone who has been thinking about an improvement to an existing asset should seriously consider whether to press ahead now with a view to completing a scheme while this level of tax relief is available.

If the possible project is actually a new-build then given that this may be a longer timeframe than a refurbishment, there is every need to get on site at the earliest time if the building is to be in use before the end of 2020 and thus qualify for the £1m AIA.

Giving good advice to clients

While professionals working in the property sector have a grasp of the essentials of tax relief - their clients typically will not. Even if clients know of the AIA through their business activities, they will be unaware of the extent of the savings on property expenditures. If they are to become AIA millionaires in the next two years - it will probably be as a result of good timely advice given by their surveyor, accountant, solicitor, or architect. This will be the type of advice that will ensure a client relationship will extend years into the future.

About us

A new corporate identity as Afilia in 2018 has been good for our profile and the year was our best yet for high value projects across a number of sectors. As ever, all preliminary advice and guidance is provided at no cost.

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