

# Capital allowances

Watts is a leading independent consultant to the property and construction industry. We pride ourselves on understanding and responding to the individual needs of owners, investors, occupiers, developers and managers of buildings. Working in partnership with specialist tax and capital allowances experts we offer advice in relation to the tax relief available in any given situation.

The following property transactions or construction related activities are usual prompts for capital allowance claims:

- Purchase of an existing property
- Refurbishment of existing properties by landlords, owner occupiers or tenants
- New build, alterations or extensions by tenants/leaseholders or freeholders

## How do capital allowances benefit you?

The UK taxation system does not have any general provision on tax relief for capital expenditure or the depreciation in value of capital assets with the passage of time. Although there are numerous accounting standards detailing how the depreciation of capital assets must be dealt with for accounts purposes, there is no allowable deduction for tax purposes. Accounting depreciation is therefore added back to the accounting profits when computing the tax charge.

Capital allowances provide tax relief for at least some of this accounting and tax mismatch. Qualifying expenditure incurred on certain buildings, fixtures and chattels will attract specific rates or amounts of tax relief, which are available for offset against taxable profits.

Benefits of capital allowances are:

- They can generate significant income and corporation tax repayments
- They allow tax relief on environmental improvements to the building
- Allowances can be used as an incentive for future purchasers of the investment property
- Claims can be made against historical expenditure

## How Watts can help

Tax, and more specifically capital allowances, on plant and machinery present in the structure of a building are often overlooked at the beginning of a construction project, but they can provide a significant cash flow advantage if the relevant claims are maximised. They can be claimed if the project is undertaken either by a company, partnership or as an individual. When the project is structured as an investment, e.g. the building is rented to another trading entity, then capital allowances will almost certainly still be available to the investor.

Elements of buildings which could qualify as plant include:

- Lighting systems essential for the particular trade of the company
- Lifts, hoists etc.
- Ventilation systems including air conditioning
- Fire alarm systems and sprinklers
- Heating and sanitary installations
- Wiring and other ancillary services essential
- Telecommunications, CCTV systems etc.
- Adding thermal insulation to an existing building

The above list is only representative of some elements that may qualify but the cost of these types of fixtures can represent a significant proportion of the total construction costs.

The assessment of allowable expenditure involves liaising with any existing accountants you may have appointed and HMRC to ensure that the claim is made at the earliest opportunity to maximise cash flow benefits to the business. If this is not done at the construction stage the benefit of capital allowances is often completely lost as the elements of plant that do qualify are 'buried' within the total costs. Accountants dealing with the tax returns months later are then unable to identify the qualifying element of the project.

Watts are able to review the scheme at feasibility stages of the design process, advising on increased tax efficiency. Qualifying elements can be identified within the project documentation, allowing for ease of tracking and early assembly of the claim. This will provide a fully substantiated claim that can be issued with confidence of its approval, reducing the time to agree the qualifying cost and quickly improving cashflow. Interim valuations can be used in order that tax returns can include part costs incurred, further improving cashflow.

Watts has undertaken reviews of historic expenditure on client's existing properties in this sector which have enabled capital allowance claims to be made generating significant tax repayments.

## Why Watts?

Capital allowances are a valuable form of tax relief, which is in most cases either under-claimed or not claimed at all due to a lack of understanding or application of the legislation and case law governing the availability of the relief.

Watts have been involved in assessing the building costs associated with capital allowances for many years. We undertake surveys of your property to identify the level and specification of the plant and machinery to be claimed, in order to provide accurate cost assessments if the information is not available.

Watts works in partnership with specialist tax and capital allowances experts to provide detailed advice to maximise any capital allowance claims on construction projects.



### The Moorfield Group

Following completion of various refurbishment works at their Heywood Distribution Park, Watts undertook the capital allowances due diligence investigation, identifying the types of allowances that were available. Watts also undertook an analysis of the costs incurred on the projects and produced a capital allowances claim for the project and negotiated the final quantum of allowances due.



### Information Data Networks

Following the purchase of the building, Watts was commissioned by the clients' tax adviser, Cowgill Holloway, to undertake a survey and provide a written valuation report of embedded plant & machinery installed in the clients premises for the purposes of a capital allowances claim under the Capital Allowances Act 2001.



### Summerfield Care Home

Following a review of the organisational structure by the clients' adviser, Cowgill Holloway, Watts was appointed to undertake a survey and provide a written valuation report of embedded plant & machinery installed in the clients' premises for the purposes of a capital allowances claim under the Capital Allowances Act 2001. This exercise was continued on the remainder of the clients portfolio of care homes.



### RREEF Real Estate

RREEF Real Estate acquired and refurbished the freehold interest in the property known as The Capitol in Bracknell, Berkshire. Our report was prepared on the basis of the expected sale price that the property would achieve. The total estimated qualifying for plant and machinery allowances potentially available to a new owner of the property based upon an apportionment of the property sale price was ascertained.

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