

Property Transactions & Capital Allowances

Tax relief in the form of capital allowances on plant and machinery embedded in the structure of a building is often overlooked on the construction, sale or purchase of commercial property. This can provide actual tax savings resulting in significant cash flow advantages if all available claims are maximised.

Many structural parts of buildings qualify as "plant and machinery" eligible for this type of relief and include the following:

- Lighting systems
- Lifts, hoists etc
- Ventilation systems including air conditioning
- Fire alarm systems & sprinklers
- Heating installations
- Sanitary installations
- Electrical wiring and other ancillary services
- Telecommunications, CCTV systems etc

Capital allowances can be claimed on any commercial building be it office, industrial or mixed use. Residential developments do not generally qualify but some elements of communal parts of residential buildings e.g. lifts in blocks of flats may qualify. Student halls of residence can also have significant potential for capital allowances.

Buying a Property

When buying a property there may be substantial value attributable to the items listed above. Wherever possible an apportionment of the aggregate cost of the property to qualifying items should be done in order to maximise tax reliefs.

For example in a purchase of a £750k property there may be £150k that could be apportioned to fixtures in a valuation undertaken by ourselves. This could result in a claim for capital allowances of up to £30k (20%) for the purchaser. If the purchaser was a 40% taxpayer this would mean a £12k (£30k x 40%) reduction in his income tax liability for the first year of ownership.

It is vital that any historic capital allowance claims by the vendor (or vendors, if you have multiple ownership) are fully



Don't miss out on the special corporation tax relief which ends on 31 March 2010!

For the 2009 tax year, the first £50,000 spent on items such as plant and machinery, fixtures and fittings, vans, computers, etc obtained a 100% deduction for corporation tax purposes. Similar expenditure exceeding this £50,000 limit would then qualify for a temporary 40% corporation tax deduction. After 31 March 2010, the temporary 40% tax deduction will come to an end. From then, qualifying expenditure exceeding the £50,000 limit will qualify only for a 20% corporation tax deduction. So if you're planning to purchase any items listed above in the near future, don't miss out on the extra 20% capital allowances that could be obtained from capital expenditure in March 2010!

investigated as these can limit any claim which can be made by the current purchaser. Due diligence in the form of examining previous claims is required **prior to exchange of contracts** to verify this. We can advise on this and on drafting the appropriate tax elections to maximise the tax reliefs available.

Selling a Property

If a property owner (who owns the property personally or is in partnership or in a company) is considering the sale of the property, it is essential that the capital allowances claim history of the property is investigated prior to agreeing the terms of a sale in order to retain the benefit of all capital allowances claimed.

The sale of a property, without properly considering Capital Allowances can result in a claw back of tax reliefs for the property owner. Even if the property owner has not historically claimed any Capital Allowances, there will still be an opportunity to make a claim after the sale, or to attempt to extract some value in respect of unclaimed capital allowance from the buyer, provided the necessary actions are taken **prior to contracts being exchanged**. Again we can advise on the necessary elections and in negotiating with potential purchasers so as to maximize tax reliefs for the vendor.

Historic Transactions

In the case of clients who have purchased buildings many years ago where the underlying property purchase contract was silent in terms of apportioning value to fixtures /plant and machinery and embedded within the property there may still be an opportunity to make a claim for capital allowances. We would be pleased to undertake the necessary review for you.

Specific Transactions

Specific transactions to look out for where there may be significant opportunities for capital allowance claims are as follows:

- Sale or purchase of commercial buildings with high specification fit outs, e.g. hi-tech offices with extensive IT infrastructure, lifts & air conditioning, specialist ducting, ventilation etc
- Purchase of buildings to be used specifically for research & development activities
- Property transactions involving the landlord's capital contributions to tenant fit out costs and other commercial lettings incentives
- Sales of properties to pension schemes or local authorities (i.e. non tax paying entities) where the benefit of future capital allowances may be assigned to a tax paying vendor and thereby factored into the negotiation of

How can
we
help?

For further information on how we can help you to maximise a capital allowances claim please contact James Greenhalgh on **01204 41 42 63** or email james.greenhalgh@cowgills.co.uk

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