

Capital Allowances



OVERVIEW

The current Capital Allowances regime entitles businesses to claim enhanced deductions on a wider range of assets than ever before. Businesses may claim Annual Investment Allowance ('AIA') in respect of their first £500,000 (reduced to £200,000 from 1 January 2016) of annual (qualifying) capital spend. This has the effect of providing immediate tax relief, as if the cost had been claimed as an expense in the P&L account.

The Integral Features ('IF') regime enables allowances to be claimed at a rate of 8% per annum (on a reducing balance basis) in respect of assets that historically would be considered part of a building (which would have otherwise been non-qualifying). For those businesses looking to acquire property, there are also planning opportunities to maximise the relief against some of that upfront capital spend utilising a 'S198 election'.

For businesses conducting qualifying Research and Development ('R&D') activities, there is the continuing ability to benefit from enhanced capital allowances on those assets used for the purposes of R&D activities.

Annual Investment Allowance

Historically, capital allowances would be given at a fixed percentage (generally 25%) and on a 'reducing balance' basis. In effect, this resulted in full relief taking many years to achieve, if ever. This regime still persists albeit at the lower rate of 18%, but greater enhanced relief is now available under the AIA regime.

Under the AIA regime, full and immediate relief is given for qualifying capital spend of up to £500,000 in a given financial or tax year. This is subject to the normal tests required of Capital Allowance claims. Most notably, the asset for which a claim is made must be one that would qualify for relief under normal Capital Allowance rules, and cannot be a car. Helpfully, vans and other commercial vehicles are permitted. In addition, the asset must be brought into use during the accounting period in respect of which the allowances are claimed.

The current cap of £500,000 will fall to £200,000 from 1 January 2016 and transitional rules will apply. The timing of significant capital expenditure should be considered carefully.

Judicious use of the AIA can enable highly beneficial tax planning. For example it is permissible to allocate the AIA against assets that would otherwise qualify for relief at the lower 'Integral Features' rate of 8%. This preserves full relief on these assets whilst maintaining any higher rates of Capital Allowance available against other asset classes.

AIA is available to sole traders, partnerships, trusts and limited companies alike. Where there are related entities, entitlement will normally be restricted to one AIA, to be allocated as the business(es) see fit. It should be noted that partnerships with a corporate member/partner are not entitled to take advantage of AIA.

Integral Features Allowances

Although first introduced during 2008, the IF regime is often little understood and underutilised. However, for freeholders and qualifying leaseholders of commercial buildings, the IF regime potentially offers relief where none was previously given.

Typically, IF allowances are available for expenditure incurred on the purchase and installation of electrical systems, water systems, air conditioning, lifts and escalators and external solar shading.

It is not untypical for between 20% and 25% of the cost of a building to comprise of costs eligible for IF Allowances.

Section 198 Elections

A section 198 election enables the purchaser and seller of a commercial building to jointly elect the value attributable to plant & machinery. The election may be made for any amount, provided it is jointly agreed between the buyer and the seller, and notified using the prescribed format.

Such elections give certainty to both buyer and seller and enables negotiation in view of both parties' tax positions. For the seller it ensures the benefit of previous capital allowances are retained, and may also give the seller a balancing allowance (in effect, a reduction against current tax liabilities). Conversely, a seller with unused losses may agree to an election affixing a high value. In effect, this is a transfer of future allowances for the benefit of the purchaser.

A common misconception is that the making of a section 198 election affects the seller's base cost for Capital Gains purposes. This is generally not the case, and with careful election planning, both the seller and buyer can benefit from tax savings.

Research & Development ('R&D') Allowances

Companies undertaking qualifying R&D activities can claim enhanced allowances on assets used for R&D purposes. This definition goes beyond the normal Capital Allowances rules and includes, for example, cars used by staff engaged in R&D. In addition, the entire cost of buildings substantially dedicated to housing qualifying R&D activities, will qualify for relief.

R&D Allowances are unrelated to AIA. Therefore a company can use its R&D allowance on qualifying R&D activities, whilst preserving its AIA for use against general business capital expenditure.

A further benefit of R&D allowances is the ability to make a retrospective claim, up to two years beyond the normal time for such claims.

How can Rawlinson & Hunter help?

Rawlinson & Hunter can work with you and/or specialist surveyors to ensure that the full benefit of the various rules is obtained.

If you have any queries in relation to capital allowance claims, or indeed any tax matter, please contact your usual Rawlinson & Hunter Partner. If you are not one of our regular clients, please contact Craig Davies or Andrew Shilling, who would be delighted to discuss this with you in more detail.

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