Capital Allowances on Commercial Property
What Accountants Need to Know

Background

Accountants are fully conversant with claiming capital allowances for assets such as cars or computer equipment but when it comes to capital allowances relating to commercial property, there can be significant difficulties.

What problems can arise?

To fully maximise claims for capital allowances on commercial property, it is necessary to have both a knowledge of the capital allowances legislation as it applies to property and also a thorough understanding of all aspects of commercial property including design, construction and costing, as well as purchasing and selling.

Purchase or disposal of second-hand property

This is another area that can cause accountants some degree of difficulty. First of all, the availability of allowances is determined by a number of factors including what the seller of the property has claimed plant and machinery allowances on, and what value is attributed to those allowances upon disposal of the property. This is part of the due diligence process which can go back many years to previous owners of the property. This issue itself is just one of many which should be dealt with by the client's solicitors at pre-contract stage.

If it can be established that a claim is possible for the fixtures in a second-hand property, the next problem that the accountant faces is ascertaining the value of these fixtures. Over the years, a methodology has been agreed between practitioners and the Valuation Office Agency as to how to arrive at the value of fixtures in a second-hand property. This requires the valuer to carry out the reconstruction cost estimate of the building, establish a figure for land and identify the items of plant and machinery and relate all of these elements to particular formula: -

$$QP = PC \times \frac{A}{A + B + C}$$

Where
QP = value of qualifying plant & machinery
PC = purchase consideration
A = the replacement cost of the qualifying items of plant & machinery
B = the replacement cost of the building excluding the qualifying items of plant & machinery
C = the bare site value

These are just some of the issues that an accountant has to deal with, and which can pose considerable difficulties.

New property developments

To maximise capital allowances on new developments, it is necessary to consider actively the capital allowances issues as early as possible in the construction process, as opposed to when preparing the year-end tax computations. It is only by doing so that decisions which may dramatically affect the availability of allowances can be influenced.

It is difficult for accountants to analyse construction cost information because they are not familiar with the intricacies of how such documents are put together. Even if particular qualifying items are listed in these documents, they may not represent the full cost available to claim. Accountants may sometimes attempt to overcome this by asking the project quantity surveyor to fill in pro-forma lists of plant and machinery but again this is not ideal as the majority of quantity surveyors are not conversant with the capital allowances legislation. This can lead to erroneous claims.

Furthermore, it is essential to have input at the early stages of the design before construction even commences. For example, it is at this point that mechanical and electrical engineers can include items qualifying for accelerated tax relief such as energy efficient technologies that qualify for a 100% first year allowance.

What can be done?

Capitus offers services directly aimed at assisting accountants with the resolution of the above issues. Our services entirely complement those services offered by accountants and are designed to provide maximum value at each stage of the tax computation process.

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