

Capital Allowances on Historically Held Property

Retrospective Reviews



Background

As property investment yields are becoming ever sharper, most investors and asset managers are constantly attempting to find new ways of extracting value from their property assets. A review of historically held property from a capital allowances perspective can give rise to significant tax benefits in the form of reduced tax bills and potentially huge repayment of tax previously paid.

What can be done?

If you own a portfolio of investment property you should consider having a retrospective review carried out. This will identify any properties where claims for capital allowances have been made, will identify the scope for increasing those claims, and will highlight properties where no claims have been made at all. The potential value of additional allowances can be estimated and from that information you can decide whether or not you wish to proceed with the preparation of fully disclosed claims for submission to HMRC with a view to either obtaining tax rebates or minimising your tax liability in future years.

The properties are old – how much can the tax relief be worth?

It is a common misconception that the age of a particular property dictates the value of capital allowances within it. It is far more important to establish whether or not previous owners of the property have made claims for capital allowances and, if so, to establish the extent and the dates of those claims, and the disposal values for plant or machinery that have consequently been brought into account.

For example, you may be holding a property acquired in 1985 for £5 million on which no one has ever claimed allowances. If the value of plant and machinery in this property is £1 million, this would generate tax relief worth £260,000 to a 26% taxpayer. By contrast you could acquire a property in 2007 that had been sold by a vendor who had previously claimed allowances and who had disposed of the plant in that building for £1, thereby leaving you with only £1 of allowances to claim.

It is therefore clear that older properties can be as lucrative as new ones in terms of the tax relief they generate.

Why was there no claim before?

There may indeed have been a claim before but it may not have maximised the potential allowances available. For example, if you have acquired a property and refurbished it you may find that you have claimed allowances for the refurbishment expenditure but not for the initial acquisition of the property.

For properties where no claims have ever been made, there are many reasons why this may have been the case.

For example when you acquired the property perhaps the interest rate of the loan put you in the position where no tax was payable and with the passage of time the allowances were simply overlooked. Alternatively you may not have been aware at the time you acquired the property that the allowances had such value, or you may have believed that a prior owner of the property would have claimed any relief that was available.

Whatever the reason, reviewing your portfolio to establish the current capital allowances position is worthwhile.

Is there a time limit?

No! You may not be able to open prior years to bring unclaimed allowances into account but there is no limitation on what you can claim in current years for historically held property. This can give rise to significant repayment of tax.

What next?

Anyone holding investment property should have a review of their portfolio carried out to establish the potential for claiming additional tax relief. The benefits could be substantial and our initial review is free of charge.

Contact Aubrey Calderwood calderwood@capitus.co.uk for more information.