

Capital Allowances for Multi Site Operators

Statistical Sampling



Background

The claiming of capital allowances and other tax relief for expenditure incurred by multi-site operators such as retailers or pub and restaurant operators can be very onerous, time consuming and will usually result in lower levels of claims than could be achieved by adopting a methodology based on a statistical sampling approach.

The issues

Multiple site operators such as retailers incur capital expenditure fitting out their premises on a regular basis. The nature of the expenditure is usually very similar between each site and comprises an element of general building work – i.e. the construction of new walls, toilets, staff welfare facilities, kitchens, etc. – combined with items of a more general shop fitting nature such as racking and displays, carpeting, air conditioning, lighting and other similar equipment.

The way in which these works are procured usually involves a general building contractor responsible for carrying out the overall shop fit working along with a number of other suppliers. There are usually one or two specific contractors who will carry out the shop fitting works on each site for any given retailer. The nature of the cost information that they supply in respect of the fit out works is usually limited and not sufficiently detailed for analysis from a capital allowances perspective. This means that capital allowances claims are quite onerous to prepare and can be difficult to substantiate in any negotiations with HMRC.

Statistical sampling methodology

Capitus has developed a methodology which aims to overcome the problem faced by multiple site operators who incur capital expenditure on a regular and similar basis. HMRC will accept an approach based on a statistically valid sample of properties which can then be used as a basis for establishing the levels of allowances available on similar units. The approach involves a detailed analysis of capital expenditure for a sample of properties which is acceptable to HMRC, who are instructed to give consideration to a statistically-based sample only if all other criteria in terms of statistical validity of the sample and the similarity of the expenditure profile can be satisfied. These claims are then submitted to HMRC and detailed negotiations are entered into in order to establish the percentages of the expenditure claimable on other properties. A further random sample of properties would be analysed in detail on an ongoing and regular basis to ensure that the claimable percentages are still valid in case the nature of fit-out changes.

In conclusion, we recommend, where possible, the adoption of this technique where the approach is acceptable to HMRC as it dramatically simplifies the process of claiming capital allowances for future sites.

The benefits

The benefits of this approach are twofold. Firstly, the client can ensure that all available tax relief is being claimed. HMRC will have reviewed the expenditure and agreed the amounts claimable. Secondly, the process of claiming allowances on future sites will be much simplified both in terms of time and costs.

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