

## **Case Study - Claiming Capital Allowances on Behalf of an Institutional Investor**

### **The Problem**

In 2002 Capitus has been asked to examine a portfolio of 82 properties held by one of the life assurance companies of a large insurance institution.

The portfolio dated back to 1982 and had a total capital cost of £1.2bn.

The client was unsure if capital allowances could be claimed and if they could, to what extent.

Furthermore for a variety of reasons there was a lack of information relating to the transactions, both in terms of purchase and development data and the identification of costs incurred.

### **The Solution**

Capitus established that the project would fall into 4 distinct categories:

- The analysis of all available data to establish the properties that would eventually be in the scope of the exercise
- Establishing a methodology that would be acceptable to HMRC given the lack of data and information in certain instances
- Surveying, analysing and preparing claim for capital allowances for properties where it was possible to do so
- Submission of the claims and negotiation of a final outcome with HMRC

After carrying out an extensive audit of the information available, Capitus met with HMRC and set out our proposed methodology for dealing with the exercise and the gaps in the information that were apparent.

We carried out a due diligence exercise for those properties where we needed to establish entitlement to claim, potential restrictions on claims, and the basis on which claims could be made.

Once this phase of the exercise had been completed, we carried out an extensive survey programme to look at those properties where it was necessary to physically survey the buildings to establish the items of qualifying expenditure. From this information, fully disclosed claims for capital allowances were prepared and reconciled to the client's accounting information. This portfolio of claims was then submitted to the client for inclusion in their tax computations and after extensive negotiations with both HMRC and the Valuation Office Agency, Capitus reached a finally negotiated settlement, which equated to a 9% disallowance from the claims we originally submitted.

## The Result

From this one analysis, and given its low effective rate of tax, the client was able to claim some £107m of plant and machinery allowances and a further £52m of IBA expenditure, which equated to **a total tax saving of some £14.5m.**

The agreement reached with HMRC was rolled out to a series of other life companies owned by the client and this resulted in a further £2bn worth of expenditure being analysed equating to a further **£20m worth of actual tax saved.**