



Industrial Buildings Allowances

Industrial Buildings Allowances (IBAs) are currently available for qualifying expenditure on the construction or acquisition of a building if the building is:

- i. in use for the purposes of a qualifying trade
- ii. a qualifying hotel
- iii. a qualifying sports pavilion
- iv. a commercial building or structure in an enterprise zone

The issue of what is deemed to be a building in use for the purpose of a qualifying trade has occupied the courts on many occasions over the years and includes trades engaged in areas such as manufacturing, processing and storage.

However, it was announced in the March 2007 Budget that IBAs are being abolished!

Nonetheless, they are not set to be withdrawn until April 2011 and it is in respect of the intervening transitional period that steps must be taken to ensure maximum relief is obtained.

The transitional rules are as follows:

1. From 21 March 2007, balancing adjustments and the recalculation of writing-down allowances in respect of balancing events are withdrawn.
2. The value of the written-down allowances (either 4% of the original expenditure, or the recalculated annual allowance after a sale or acquisition) will be progressively reduced as follows:
 - In 2008-2009 or financial year 2008, a business will be entitled to 75% of the WDA
 - In 2009-2010 or financial year 2009, a business will be entitled to 50% of the WDA
 - In 2010-2011 or financial year 2010, a business will be entitled to 25% of the WDA

The following example shows how the transitional arrangements will work:

A company is entitled to IBAs and has a chargeable period that starts on 1 January 2008 and ends on 31 December 2008. Its annual entitlement to IBAs will be made as normal (either under s.310 or s.311) and that amount will then be time-apportioned. In this example, the annual amount is calculated at £46,000. So the time apportionment calculation would be as follows:

- 1 January 2008 to 31 March 2008: $\frac{1}{4}$ of £46,000 x 100% = £11,500
- 1 April 2008 to 31 December 2008: $\frac{3}{4}$ of £46,000 x 75% = £25,875
- Year ended 31 December 2008, total IBAs deductible in computing profits: £37,375

In the year ended 31 December 2009, assuming no new expenditure is incurred, the time apportionment will be:

- 1 January 2009 to 31 March 2009: $\frac{1}{4}$ of £46,000 x 75% = £8,625
- 1 April 2009 to 31 December 2009: $\frac{3}{4}$ of £46,000 x 50% = £17,250
- Year ended 31 December 2009, total IBAs deductible in computing profits: £25,875



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Capitus viewpoint

Whereas the difference between P&M allowances and IBAs previously only represented a cash flow timing difference, the ability to claim P&M allowances now equates to an absolute tax saving. However, the NPV of that saving is further reduced when the reduced 10% WDA for fixtures is taken into account. The emphasis for companies where IBAs have been important in the past (such as hotels) should now be twofold: firstly, to protect and retain as many IBAs as possible going forward and secondly, to claim and maximise ECAs for energy and water-efficient technologies where possible.

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