



Integral Features

Background

In the past, the claiming of capital allowances for expenditure on plant and machinery was made complicated by the lack of a definitive list of exactly which items qualified for the relief. What could be claimed was based upon interpretation of the legislation, decisions in the courts and negotiations with HMRC. In an attempt to try and simplify the position, and as part of the Business Tax Reform, HMRC introduced a new category of plant and machinery known as “integral features” for expenditure incurred after 31 March 2008.

HMRC hopes that the introduction of this new category will promote investment and growth, reduce administration burdens and complexity, and maintain the fairness of the tax system.

What are integral features?

In broad terms, integral features represent the main mechanical and electrical systems found within a building. HMRC have issued a list of six asset categories which are to be treated as integral features. They are:

- Electrical systems
- Cold water systems
- Space or water heating systems, air conditioning and ventilation systems
- Lifts, escalators and moving walkways
- External solar shading
- Active facades

Expenditure on integral features is to be allocated to a specific plant and machinery pool known as the “special rate pool”. The special rate pool attracts tax relief at the rate of 10% per annum on a reducing balance basis. It should be noted that the 2008 Budget reduced the rate of relief for the general pool from 25% to 20% per annum.

Whilst integral features attract a lower rate of tax relief, their introduction does increase the list of items generally accepted as plant to now include items such as general lighting, general power and cold water installations.

Does it affect me?

The first thing to remember is that the integral features regime only applies to expenditure incurred after 31 March 2008. There will be no adjustment for any expenditure incurred before this date and any historic expenditure will remain in the general pool.

However, if you have incurred any expenditure on a building after 31 March 2008, then you will need to allocate the expenditure to the correct plant and machinery pool, either the general pool (20%) or the new special rate pool (10%).

Are these extra items worth much?

The widening of the definition of plant to include the items mentioned above will be of particular interest and value to those tax payers who have purchased property after 31 March 2008 as extra tax relief could be available.

Many sellers, when disposing of a property, use a Capital Allowances Act 2001 s198 election to fix the value attributable to the plant and machinery fixtures within a building on which they have made a claim for capital allowances. Quite often a seller will require a purchaser to enter into a s198 election for the tax written down value, or in some cases, a figure as low as £2. Normally if a £2 election was made, a purchaser would be unable to claim any allowances beyond the elected figure of £2.

However, due to the introduction of integral features and the widening of the definition of plant, capital allowances may be claimable on those assets included within the building which previously did not qualify as plant and attract any form of tax relief.



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We estimate that on a typical office building the extra items could be worth between two and six per cent of the purchase price.

For example, on a £15M acquisition this could equate to additional allowances of £300,000 to £900,000 which at a tax rate of 26% would provide additional tax relief of £78,000 to £234,000.

What do I need to do?

You need to check the completion date for any property acquisitions. For those acquired after 31 March 2008 you will be required to allocate the correct sum of expenditure to the appropriate plant and machinery pool. The sum to be allocated is likely to be based upon either a “just apportionment” of the purchase price in accordance with CAA 2001 s562, or the sum elected in a CAA 2001 s198 election.

If you have entered into a s198 election, then regardless of what the elected amount actually is, you should seek to claim the additional allowances available for those items now treated as plant following the introduction of the integral features legislation.