

## **Case Study - Maximisation of Capital Allowances on a Refurbishment Project**

### **The Problem**

Our client, a large privately owned property investment company, was refurbishing an existing building in the City of London to provide retail accommodation on the ground, first and second floors, with office accommodation on the upper floors. A planning restriction required that the existing façade of the building be retained and this restriction posed considerable difficulties for the design team who needed to incorporate a modern air-conditioned retail and office space behind the existing façade.

The existing floor-to-ceiling height in the building did not allow the incorporation of air-conditioning into the building and other services that would be required in a modern office and retail environment, so the design solution was to increase the height of the building by taking down and setting aside the top portion of the façade, stretching the remainder by adding additional courses of stone and reinstalling the portion of the façade that had been previously taken down.

### **The Solution**

Apart from the usual elements of plant and machinery upon which capital allowances can be claimed, this project gave rise to the possibility of claiming a proportion of the expenditure relating to the stretching of the building.

In order to maximise the capital allowances available, Capitus first carried out an audit of the design to establish those elements of the building project that could be deemed to be “building alterations connected with installation of plant and machinery”. This relates to Section 25 of the Capital Allowances Act 2001 and allows persons incurring capital expenditure on alterations to an existing building which are incidental to the installation of plant or machinery to claim that expenditure as if the expenditure was on the provision of the plant and machinery itself.

In this case, the only reason for stretching the building, demolishing the existing floors and rebuilding the floors in new positions was to provide a modern air-conditioned office and retail property. While Capitus knew that such a claim was likely to be resisted by HMRC, we felt that all the criteria were met for submitting a claim on this basis.

As predicted, when the claim was submitted to HMRC they queried the extent of our interpretation of CAA 2001 s25. This definition has never been tested in the courts and so, in conjunction with the client, Capitus sought Counsel’s opinion on the interpretation of this point of law.

### **The Result**

Counsel’s opinion largely supported our view of the scope of CAA 2001 s25. This meant that circa £5M worth of general building expenditure could receive tax relief where no other relief would have been available. This equated to a tax saving to the client of circa £1.5m.