

Are you sitting on a goldmine of unclaimed tax reliefs?



Tax expert Aubrey Calderwood highlights where nurseries are missing out

Buying, building, fitting out or refurbishing a nursery can be an expensive business but a source of unclaimed tax relief could lie within these very costs which, when unlocked, could provide a life-line to cash strapped nursery businesses.

Tax relief for capital expenditure – why you could have missed out

To encourage economic growth and investment, the Government gives companies and individuals tax relief for the costs they incur when buying items of equipment essential for the running of their businesses. These so-called “capital allowances” are intended to be a valuable source of tax relief and a stimulus for investment. However, companies rarely claim the full extent of what they are entitled to.

Why? The main reason is that the tax legislation which sets out the rules for claiming this tax relief, The Capital Allowances Act 2001 (CAA 2001), is very complex and the interpretation of this code can

sometimes be bewildering to business owners and their professional advisors, including Accountants.

This is especially true when it comes to applying the rules relating to the availability of capital allowances for items of equipment associated with property. A particular section of CAA 2001 gives capital allowances for what is known as “Plant & Machinery”. However, although attempts have been made, the term “Plant & Machinery” has never been defined in legislation leaving the interpretation of what qualifies to the Courts in a plethora of case law.

Whereas, some items of nursery equipment might obviously be plant or machinery (computers, desks, chairs or play equipment etc.), it is more problematic to identify and value items of plant or machinery relating to a property and this is the area where the potential for under claiming tax relief is greatest.

Tax relief for buying, building, fitting out or refurbishing nurseries

There are many items within a typical nursery that qualify for capital allowances. As mentioned,

we have the obvious items but then we have the property fixtures and many of these items also qualify. For example, heating installations, fire alarms, lighting installations, catering equipment, toilets, wash hand basins, hot and cold water installations, cctv, demountable partitions, lifts etc. all of these items qualify for tax relief but the value of them depends on the circumstances of how the expenditure was incurred.

Buying second hand property

The situation which gives greatest opportunity for claiming tax relief not previously claimed is where a property has been acquired second-hand from a previous owner.

It is often assumed that because a property may be relatively old that the value of the fixtures within that property will also be old and of little value. However, the value of fixtures within a property actually rises in direct proportion to the rise in value of the property. So the amount of tax relief that is claimable does not depend on how old a fixture is but whether or not someone has previously claimed tax relief for that item and crucially,

The following example illustrates the point:

Original construction cost of property in 1980.....	£500,000
Original cost of fixtures/equipment in 1980.....	£150,000
Property purchased again in 1999 for	£1,000,000
Value of fixtures/equipment in 1999 (assuming no claim in 1980).....	£300,000
Property purchased again in 2009 for	£2,000,000
Value of fixtures/equipment in 2009 (assuming no claim in 1996).....	£600,000

what value was placed on that item when it was sold with the business.

There is great potential for claiming additional Plant & Machinery allowances on the fixtures and equipment that the seller of the property had not originally made a claim for and this is where the opportunity to claim increased levels of tax relief arises out of.

Time and time again we come across situations, particularly in relation to nurseries, where the seller of the property has not claimed everything they have been entitled to claim or not claimed anything at all. For example, many nurseries are purchased from local authorities who do not pay tax and therefore will definitely not have claimed. In this situation, the purchaser may be entitled to a substantial tax refund plus interest on overpaid tax.

New build nurseries

There are more opportunities for maximising capital allowances in respect of new build nurseries. Modern nurseries incorporate a number of design features that attract capital allowances such as security installations, water and energy saving measures, soft play areas etc. All these items potentially qualify for tax relief but when we come to review claims for new build nurseries, again, we usually find

significant areas of under claim. And from 1 April 2008, additional items qualify that did not qualify before such as cold water installations and entire electrical systems including lighting.

Fit outs and refurbishments

There are additional elements in nursery fit out and refurbishment projects that do not qualify in new build situations. These items primarily relate to works that are known as "alterations incidental to the installation of plant and machinery installation" For example, in a new build property you would be able to claim for the cost of a lift but not the shaft that the lift is contained within. In a refurbished property if you are installing a new lift, the lift and the shaft qualify for tax relief.

Confused? Working out what you should receive in tax rebate can be complicated, which is why so many nurseries fail to claim what they are owed. It requires a blend of accountancy, building surveying and economics to get it right and that's where specialists like Capitus can help. If you are in any doubt whether it is worthwhile trying to reclaim the tax relief the following table indicates typical levels of plant & machinery allowances that we would expect to find on the fitting out or purchase of an average children's nursery. ■

	Expenditure	Average P&M amount	Tax relief	
			21%	28%
Fit Out	£300,000	£195,000	£40,950	£54,600
Purchase	£1,000,000	£370,000	£77,700	£103,600



How to claim your tax rebate

We always recommend a retrospective review of what you may have claimed in respect of previous expenditure and a health check to establish adequate recording of your capital allowance claim potential. It may transpire that you have under claimed valuable allowances in previous years and if we establish that this is the case you have the ability to introduce that claim in the latest open tax year to unlock the tax relief vested therein. This can result in repayments of tax from HMRC and minimised tax bills going forward.

- Aubrey Calderwood is director of tax specialists Capitus. For a free, non-obligation initial review of your business please contact Capitus:

London & South T: 020 7618 0920
 Midlands & North T: 0121 447 8388
 Scotland & Ireland T: 028 25647022

www.capitus.co.uk
email: enquiries@capitus.co.uk