

# Are you missing out?

Nurseries are paying too much tax and failing to claim a variety of capital allowances. *Kevin Meyer*, co-founder of Capitus, explains how to maximise tax relief and retain valuable cash

**B**uying or fitting out a nursery can represent a significant capital commitment in terms of expenditure. These costs can attract significant levels of tax relief in the form of capital allowances but they are rarely, if ever, claimed in full by the nursery operator.

This means that, year on year, nurseries may pay more tax than they should and, consequently, valuable cash that could, and should, be used in the operation of the business is taken by the taxman.

However, believe it or not, HM Revenue & Customs (HMRC) actually *wants* you to have this money – really! That is why it introduces these ‘incentives to invest’ in business in the first place. So why do nursery operators not claim their full entitlement to tax relief and, more importantly, what can be done about it?

## UNDERSTANDING YOUR ENTITLEMENT

First of all, you have to have a basic understanding of what you can claim tax relief for. In the UK, this is governed by a particular and almost impenetrable part of the tax legislation called The Capital Allowances Act 2001. This is difficult enough for

accountants to interpret and apply at the best of times, but it is almost incomprehensible when it comes to items that qualify for tax relief in a property – so-called plant and machinery allowances (P&M). For example, there is no definitive list of what qualifies. Instead, we are left to ‘read between the lines’ and apply precedent case law. All of this means that there is huge scope for missing something along the way.

Take the following scenario. One

client acquired a 1980s office building in 2002 for circa £1m and then proceeded to convert it into a nursery. The client installed all the usual play equipment, desks, chairs, additional toilets, lighting and CCTV systems and spent a further £250,000 doing so. Our client’s accountants claimed capital allowances for P&M on a proportion of the £250,000 fit-out costs but never considered that capital allowances might be available on part of the original office acquisition ►



## FINANCE: TAX RELIEF

costs. Because it was an old property, they assumed that even if there were items that might potentially qualify for tax relief, their value must be so low by now as to be negligible.

This is a common misconception. The value of capital allowances in a second-hand property is not dictated by the original cost of a particular item but by whether or not the prior owner of the property has already made a claim for it. The following example illustrates this concept: effectively, the value of the P&M has risen from £150,000 when it was originally built to £300,000 when it was acquired again in 2002.

So, what did all this mean for our client? The additional £300,000 of P&M allowances equates to an additional tax saving of £84,000 (it was a limited company paying tax at the rate of 28 per cent). There is no limit on how far back you can go to examine previously incurred expenditure, so this additional claim was submitted as part of its year-end tax return, which resulted in a tax repayment from HMRC in the sum of £52,000.

So what can we learn from this? It is always worthwhile examining historic expenditure on your property to check that a claim has been made in the first place and, if it has, that it has been maximised.

Time again we come across situations where nursery operators who perhaps were not in a tax-paying position in the early years of their start-up do not make a claim at all. This is valuable tax relief that can convert into hard cash – a welcome monetary injection into the business.

### ENERGY-EFFICIENT EQUIPMENT

The ability to examine prior expenditure is not the only area where tax relief can be maximised. 1 April 2008 saw the introduction of new legislation aimed at clarifying which items could be claimed for. At the same time, it changed the rate at which those items could be claimed.

The overall government focus is now to provide tax incentives to companies that install energy- or water-efficient items of equipment by increasing the rate at which these are available (100 per cent in the year incurred). At the same time, the rate at which non-energy efficient equipment attracts relief is reduced (10 per cent in the year incurred).

This differential in rates presents both problems and opportunities. As



Kevin Meyer: tax relief specialist

stated above, the changes on 1 April 2008 also clarified which items could be claimed for. For example, prior to that date, you could not generally claim for the lighting installation in a nursery, whereas after that date, you could. If you install an energy-efficient lighting scheme you could potentially obtain 100 per cent tax relief for the lighting, compared with just 10 per cent relief for a normal non-energy efficient scheme.

The same applies to a whole range of other items of equipment, such as boilers and water systems, so you can see that by using the available tax incentives, there are ways of improving cash flow at the same time as reducing operating costs.

### OTHER AVAILABLE INCENTIVES

We have only really scratched the surface of the potential tax relief that is available to nursery operators. A whole host of other reliefs and incentives are also available.

For example, we have the business premises renovation allowance. This is a particularly valuable incentive because the entire expenditure incurred in bringing a vacant commercial property back into use in certain areas of the UK can be offset against tax.

The property has to satisfy certain eligibility criteria, including being vacant for at least a year and previously having been used as a business



### FURTHER INFORMATION

- Capitus: Property Tax Depreciation Consultants  
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premises. If you fit out a nursery that satisfies these criteria, you will be able to claim 100 per cent of that expenditure against your tax liabilities. So a nursery costing £100,000 to fit out would generate tax relief of £28,000 for a company and £40,000 or £50,000 for an individual (depending when incurred).

Then there is land remediation relief. This is available at 150 per cent (or a 16 per cent tax credit if surrendered against a loss). You might not immediately think that a tax incentive called land remediation relief would apply to a nursery, but it is available for items such as removal of asbestos, which is often found in older premises and can be costly to get rid of.

To finish with, perhaps the most under-claimed tax relief of all – ‘building alterations connected with the installation of plant or machinery’. When you are fitting out a nursery, you are entitled to claim for such items as parts of the construction of new toilet block walls or new kitchen walls or ceilings, for example. This might appear insignificant in the overall context of the costs of fitting out a nursery, but identifying and claiming these costs can increase a capital allowances claim by up to 35 per cent.

### WHAT NEXT?

If you have historically incurred expenditure either acquiring or fitting out a nursery premises, you could be sitting on a goldmine of unclaimed tax relief. If this expenditure is significant, and particularly if you own a portfolio of nursery properties, we recommend having a review carried out to establish if there is any scope for making an increased claim. This initial review should be free and you should only pay if your tax position can be substantially improved.

Similarly, if you are intending to either acquire or fit out a nursery, you should seek the advice of a capital allowances specialist. The relevant issues should be dealt with prior to a property being acquired or a contractor being appointed, because it is often too late to affect the position after the transaction has occurred. ■

Original construction cost of property in 1985	£500,000
Original cost of P&M in 1985	£150,000
Cost of property when purchased again in 2002	£1m
Value of P&M in 2002 (assuming no claim in 1985)	£300,000
Equates to an additional tax saving of	£84,000