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I have just bought an office block in Madrid.

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Are there any tax benefits that I may have overlooked?

Quite possibly, yes.

If you buy a property in the UK, you may be entitled to claim capital allowances for various components of the property. In tax jurisdictions that are not based on the UK regime - in other words, most of Europe and the US - a system of tax depreciation applies to the cost of the property.

Our experience indicates that in Europe in particular, accountants tend to depreciate the cost of the property at a single composite rate, typically between 2% and 4% of the purchase price (excluding land) or construction cost. However, the tax legislation in the many tax jurisdictions across Europe allow the various component parts of the property to be invariably depreciated at accelerated rates.

Doing this gives a significant tax advantage to the property owner and in many jurisdictions this is an accounting requirement. Why then, is it not often done?

The most common reason is that accountants do not usually have the property costing skills required to effectively carry out the exercise and they view it more of a cash flow exercise than an absolute tax saving. Nonetheless, that tax cash flow can be very significant. Put another way, the governments across Europe allow this to be done so it effectively amounts to an interest free loan from government to invest in your business.

In the United States, the act of depreciating the various component parts of the property is known as “cost segregation analysis” and it is a widely used technique carried out by skilled professionals. No such equivalent exists in Europe and it is usually left to UK capital allowances specialists with specific European experience to offer this service.

However, the exercise is well worth the effort as the following example shows. A call centre in Madrid with a total construction cost of €26.3m. The tax savings with this analysis are much larger:

	Without analysis	**With analysis**
Year 1 tax saving	€1,046,148	€2,796,978
Year 5 tax saving	€5,230,740	€12,889,372

It should also be kept in mind that if you are a UK company that owns property directly or indirectly abroad, not only might you be able to claim accelerated depreciation in the country you are investing in but you might also be able to claim UK capital allowances depending on the structure of how and where the property is held. Again, this is something that is often overlooked.

We recommend that anyone who has purchased or constructed any international property over the past five years, review their portfolios to ensure that they are not missing out on these significant levels of potential tax relief.

Source:

Aubrey Calderwood is a director at investment incentives consultant Capitus