



Tax Allowances on Foreign Property Investment & Development

The majority of UK investors understand the positive impact that capital allowances can have on their profits. However, with investors finding a diminishing level of return from UK investments, they are increasingly looking to Europe to bolster their property portfolios.

Overview

The majority of European countries have some form of tax depreciation. However, there are significant differences in the various countries, the rates applicable and the assets to which they relate.

Most countries have a system that allows a taxpayer to separately identify those assets found in a property from the property itself. There are also generally accepted rates or ranges of rates for each asset category, which are usually given on a straight-line basis or on a reducing balance basis. Some countries place an importance on the expected economic life of individual assets while others focus more on the type of asset.

France

In France for example, there is a distinction between companies that qualify as small and medium sized (SME) and other companies. An SME can choose to either split the cost of the building into components and claim depreciation on each component individually or depreciate the building as one unit over the useful life. Large companies are obliged to depreciate a building on the basis of its individual components.

Germany

Tax depreciation in Germany is allowed for fixed assets with a useful life of more than one year. There are accepted rates of straight-line depreciation, which range from 2% for buildings to 33% for computer equipment. In order for an asset to be depreciated separately from a building it is necessary to determine if the asset is an integral part of the building or can be held to be a separate asset. Although, not identical to the UK system many similar criteria are applied in deciding what can be separately depreciated.

Spain

Entitlement to tax depreciation in Spain is attached to the legal ownership of the property and again the rate of depreciation is set out in official tables. It can be possible to deviate from the official tables, however in practice this is relatively uncommon. The asset categories include commercial property, civil works, electrical installations, air conditioning, water distribution, lifts, furniture and equipment and several others. Depreciation is applied on a straight-line basis once the assets have been used for the basis of a trade.

Capitus view

There are clear benefits to separately identify those parts of a building which attract higher rates of depreciation allowances. In many countries it is possible that an individual asset could be claimed under more than one category and therefore there is even more scope for tax depreciation claims to be maximised.

Aside from the tax depreciation rules, there are also important differences between the UK system of corporation tax and the system of taxation for any given country. It is important that advice is sought from local accountants to ensure that an investor meets all his tax and accounting obligations.

Please contact Nick Small small@capitus.co.uk for further details.

To obtain a copy of Capitus' brochure on tax allowances on foreign property investment and development, please send an e-mail to enquiries@capitus.co.uk .