

CAPITAL ALLOWANCES

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Big thank you

- Questions at the end
- Slides for you to make notes
- Notes
- Copy of slides and notes by email



Purpose of talk

- Give an overview of the capital allowances system
- Flag up a hot topic area which will apply to all commercial properties



What I will not do tonight

- Debate the legislation
- Give specific recommendations
- Get into detail about treatment of specific claims



What are they ?

- A tax allowance available for businesses
- Cost of capital equipment – not tax allowable expense
- Instead - may be able to claim capital allowances
- Do not have to claim them – carried forward
- How much claim
- Can be claimed to generate losses carried forward



Main capital allowances

- Plant + machinery
- Low emission cars
- Short life assets - computers
- Long life assets
- Integral features
- Fixtures and fittings



Sundry allowances

- Patent rights + know how
- Electric vans
- Business premises renovation in assisted areas
- Research + development
- Energy and water efficient equipment



Capital allowances rates

- First year allowance – variable set annually eg 25%
- Annual investment allowance – a set £ value
- Writing down allowances – reducing balance rate eg 18%



AIA

- To 31.12.12 £ 25,000
- From 1.1.13 £ 250,000
- From 1.1.15 £ 25,000
- Timing of purchase and accounting years



Plant + machinery

- AIA 100% in first year
- Thereafter 18% reducing balance
- Pooled
- No HMRC definition
- Broad category



Buildings

- Generally not eligible
- Indeed some specific exclusions eg
- Walls
- Floors
- Roofs



Integral features

- electrical systems (including lighting systems)
- cold water systems
- space or water heating systems, a powered system of ventilation, air cooling or air purification, and any floor or ceiling comprised in such a system
- lifts, escalators or moving walkways
- external solar shading



Fixtures + fittings

- Asset when installed becomes part of that building or land eg
- fitted kitchen units, cupboards and sinks
- agas and wall mounted ovens
- fitted bathroom sanitary ware
- central heating systems
- intruder alarm systems



Why is it a hot topic now?

- New rules in Finance Act 2012 make the availability of capital allowances to a purchaser of fixtures conditional
- Based on **entitlement** of the seller or previous owner to claim
- Require valuations and elections to be in place in the right order at the right time



Law up to 5 April 2012

- Buildings containing second hand fixtures
- Value to be placed on them based on 'just and reasonable' apportionment
- Could be claimed at any time
- Often not claimed – interaction with CGT
- HMRC - Potentially double claiming of reliefs
- Finance Act 2012 changes



1) The value of fixtures being established formally within 2 years of the transfer

- Where capital allowances have been claimed
- Effective from April 2012
- The 'fixed value requirement' – identify assets
- S198 election – joint election between vendor and purchaser – agreement of value



2) Previous business expenditure on qualifying fixtures being pooled before subsequent transfer to another person

- The 'pooling requirement'
- Effective from April 2014
- Based on **entitlement** of the seller or previous owner to claim
- If not done qualifying expenditure will be treated as nil



What does this mean in practical terms ?

- Capital allowances are lost which might have been available
- Consider claims available
- Get proof from your accountant and solicitor to keep with your title deeds
- Do not assume they have done it – this is a technical area which has been mis-understood



What does this mean in practical terms ?

- Identification of assets on which CAs have been claimed
- Amount claimed
- Professional valuation of entitlement to claim
- Get it documented now to get protect the future position
- Consider claims available



What does this mean in practical terms ?

- Will lead to negotiations on selling prices
- Scope for increasing value on sale
- Or value for purchasers if vendors get it wrong



Implications

- This is a new process
- Disallowance by HMRC of claims
- HMRC proof that there have been no claims
- Don't ignore it
- It will cost fees but costs of getting it wrong
- Protect yourself and your business from costs of HMRC investigation by Fee Protection insurance



Disclaimer

- This presentation provides only an overview of the subject
- No action should be taken without seeking professional advice
- No responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.



Thank you

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