

Arthur Kemp

Capital Allowances Overview for Property Investors

2021

Capital Allowances - HMRC

Introduced in 1878, is a Tax Relief available in Lieu of Depreciation for certain items.

HMRC “You can claim capital allowances when you buy assets that you keep to use in your business, eg: equipment, machinery, business vehicles...these are known as plant and machinery.”

You can deduct some or all of the value of the item from your profits before you pay tax”.

When you **BUY** or **DEVELOP** a property, you can deduct the value of this Plant & Machinery within it.

It's the 'Tax Depreciation' of your assets.

Limited Companies, Individuals, SPV's & LLP's can all claim these allowances, in accordance with **CAA2001** through their tax return irrespective of planning status.

CA's Value – rough guide

Property Type	Commercial	SA / HMO / Holiday Let
Purchase Price	£100,000	£100,000
Purchase CA's (P&M)	£20,000	£20,000
Purchase CA's (SBA)	£45,000	£nil
Total	£65,000	£20,000
Tax Saved 40%	£26,000	£8,000
Tax Saved 20%	£13,000	£4,000
+ Development Costs	30-75%	30-75%

Plant & Machinery



AC units + converters / Alarms + panels / Boilers / Heaters

Plant & Machinery



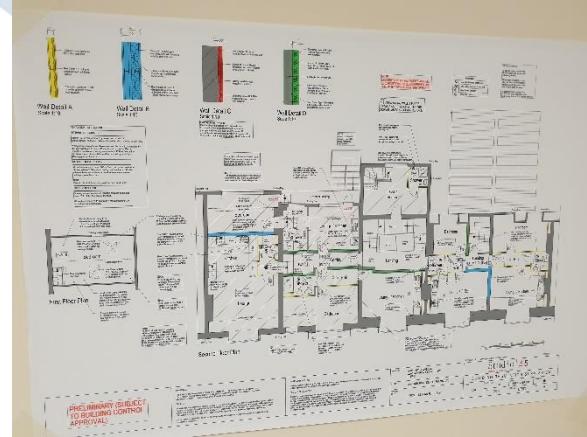
Switchgear / Radiators / Fire points

Plant & Machinery

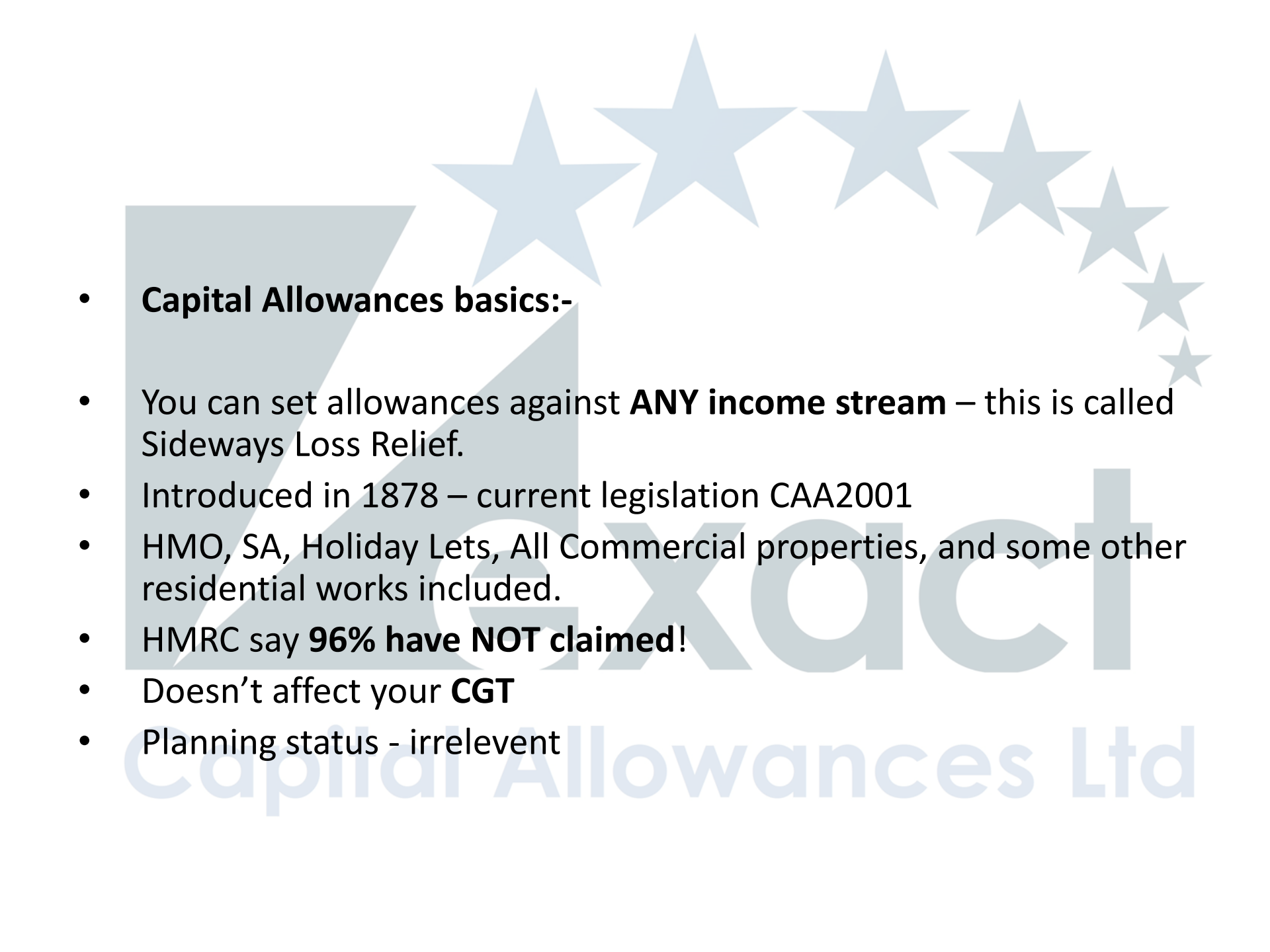


Lifts / Door Entry systems / WC installations

Plant & Machinery



Kitchen Installations / Signage / Lining

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- **Capital Allowances basics:-**
 - You can set allowances against **ANY income stream** – this is called Sideways Loss Relief.
 - Introduced in 1878 – current legislation CAA2001
 - HMO, SA, Holiday Lets, All Commercial properties, and some other residential works included.
 - HMRC say **96% have NOT claimed!**
 - Doesn't affect your **CGT**
 - Planning status - irrelevant

Capital Allowances

- Flip or Keep?
- Flip - Developer – Stock / No CA's
- Keep - Investor – Fixed Assets – Full CA's

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Which Properties?

- **NO** - Single BTL
- **YES** - All Commercial properties – Retail, Industrial, Offices, Hotels, B&B's, any 'non-dwelling'
- **YES** - Mixed Use Properties – Retail with flats
- **YES** - Residential – If converting to SA / Holiday Let
- **YES** - Block of flats – communal access areas only
- **YES** - **HMO's – Common Areas** (c.12-15% of PP) New Case Law

Capital Allowances

- Not pay any tax
- Increase the ROI of your projects
- Keep hold of more of your hard earned £££
 - Be a smarter investor
 - Look at deals in a new way

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You are.....

- A future property investor
- Existing property owner
- Property developer
- Seeking deals
- Building a portfolio
- Looking to maximise returns

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Office - Example



Office into 6 bed HMO, Coventry

Purchase Price + Dev works = £265,225

Plant & Machinery Value = £49,265

Tax Saved by Private individual = £19,600

Mixed Use - Example



Retail & storage building into 6 Resi flats + 6 Holiday Let Flats + 4 serviced Accommodation, Southampton

Purchase Price + Dev works = £675,000

Plant & Machinery Value est = £189,500

Tax Saved by Ltd Co = £37,000

Example



Office block inc lifts, parking underneath, Hemel Hempstead
Purchase Price + Dev works = £3,000,000
Plant & Machinery Value = £687,155
Tax Saved by Private individual = £123,302

Office - Example



Office bought for owner/occupier, Dawlish

Purchase Price + Dev works = £605,000

Plant & Machinery Value = £139,151

Tax Saved by couple = £55,600

SA - Example



Former Offices into SA Flats, Northampton, NN1

Purchase Price + Dev works = £465,225

Plant & Machinery Value = £175,265

Tax Saved by Private individual = £52,290

SA - Example



Derelict offices into Serviced Accommodation, Workso
Purchase Price + Dev works = £215,000
Est. Plant & Machinery Value = £55,000
Tax Saved by LLP = £21,750

Mixed Use - Example



Former Public House into Mixed use commercial / residential units, Brixton

Purchase & Development works = £2,308,050

Plant & Machinery Value = £286,106

Tax Saved by Ltd Co = £62,940

Examples of Plant & Machinery — source HMRC.

1. Machinery such as vans, trucks, motorcycles, trains, tracked and wheeled machinery.
2. Gas and sewerage systems to meet the particular requirements of the qualifying
3. Space or water heating systems; powered systems of ventilation, air cooling or air purification; and any floor or ceiling comprised in such systems.
4. Manufacturing or processing equipment; storage equipment (including cold rooms); display equipment; and counters, checkouts and similar equipment.
5. Cookers, washing machines, dishwashers, refrigerators and similar equipment; washbasins, sinks, baths, showers, sanitary ware and similar equipment; and furniture and furnishings.
- 6 Hoists.
7. Sound insulation provided mainly to meet the particular requirements of the qualifying activity.
8. Computer, telecommunication and surveillance systems (including their wiring or other links).
9. Refrigeration or cooling equipment.
10. Fire alarm systems; sprinkler and other equipment for extinguishing or containing fires.

- 11. Burglar alarm systems.
- 12. Strong rooms in bank or building society premises; safes.
- 13. Partition walls, where moveable and intended to be moved in the course of the qualifying activity
- 14. Decorative assets provided for the enjoyment of the public in hotel, restaurant or similar trades.
- 15. Advertising hoardings; signs, displays and similar assets.
- 16. Swimming pools (including diving boards, slides and structures on which such boards or slides are mounted).
- 17. Any glasshouse constructed so that the required environment (namely, air, heat, light, irrigation and temperature) for the growing of plants is provided automatically by means of devices forming an integral part of its structure.
- 18. Cold stores.
- 19. Caravans provided mainly for holiday lettings.
- 20. Buildings provided for testing aircraft engines run within the buildings.
- 21. Moveable buildings intended to be moved in the course of the qualifying activity.
- 22. The alteration of land for the purpose only of installing plant or machinery.
- 23. Dry docks.
- 24. Any jetty or similar structure provided mainly to carry plant or machinery.

- 25. Pipelines or underground ducts or tunnels with a primary purpose of carrying utility conduits.
- 26. The provision of towers to support floodlights.
- 27. Any reservoir incorporated into a water treatment works, or any service reservoir of treated water for supply within any housing estate or other particular locality.
- 28. Silos provided for temporary storage, or storage tanks.
- 29. Slurry pits or silage clamps.
- 30. Fish tanks or fish ponds.
- 31. Rails, sleepers and ballast for a railway or tramway.
- 32. Structures and other assets for providing the setting for any ride at an amusement park or exhibition.
- 33. Fixed zoo cages.

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Plant & Machinery (P & M) Typical Values

– Modern Offices	29%-54%
– Serviced Accommodation	29%-65%
– HMO	13%-17%
– Hotels	35%-55%
– Dentists / Medical	28%-62%
– Industrial Units	09%-30%
– Retail Units	18%-50%
– Residential for converting	19%-26%
– Blocks of Flats	5% - 15%
– Restaurants	18% -28%
– SBA – since Oct 18	40% - 60%
– Property Development works	30% -95%

Claim process

- **Desktop Appraisal**
- **Compliance**
- **Valuation**
- **Report**
- **Submit**
- **Refund/ Mitigate - £££££**



2-6 weeks

Recent Legal changes to CA's

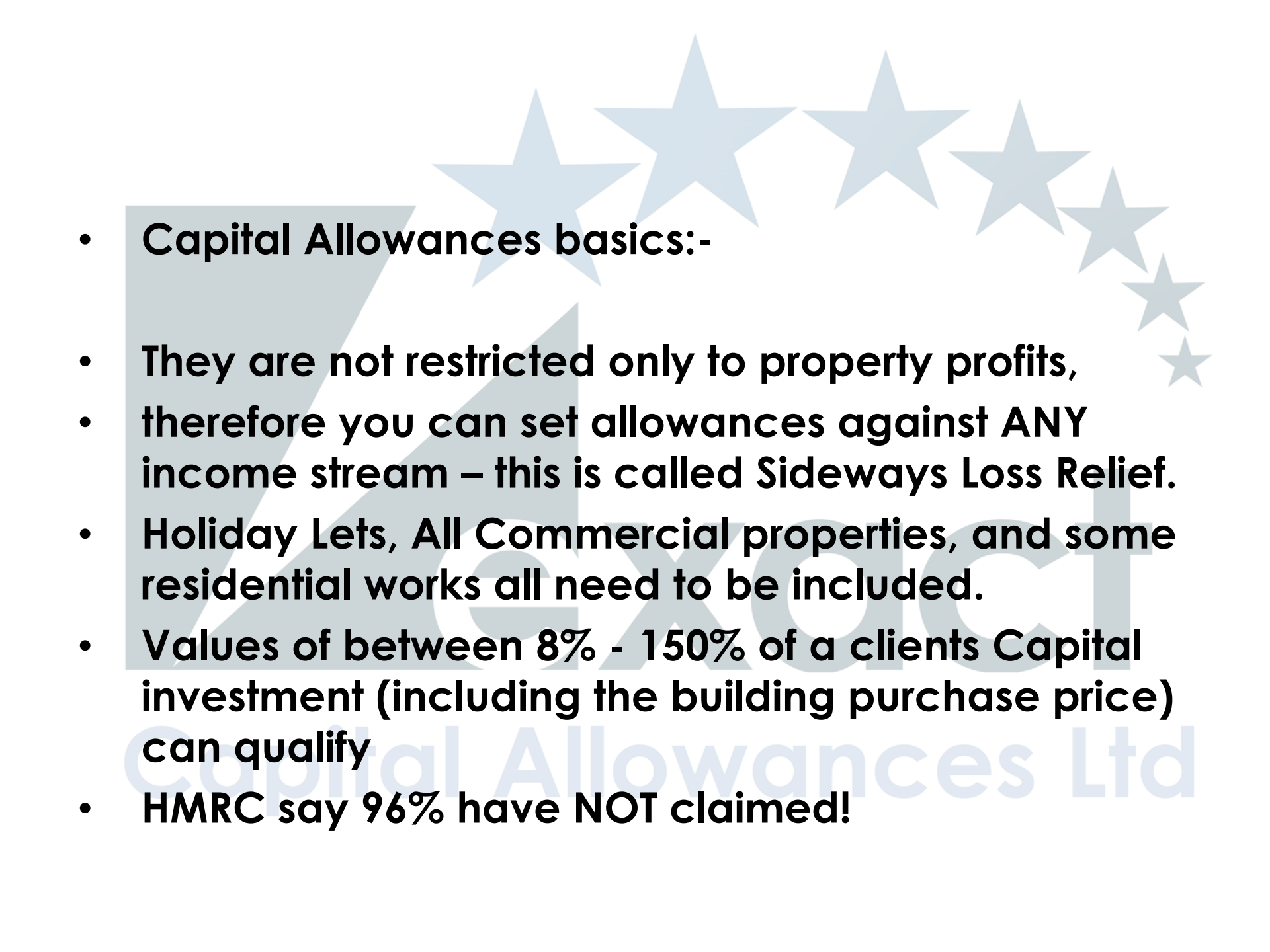
- If you don't agree the Plant Value within a building with the Vendor within 2 years of purchase – you get nothing.
- Its easier to agree this as part of the sale negotiations, rather than retrospectively.
- If the vendor wont agree, then take them to a Tax Tribunal

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SA - Example



Former Hotel into 24 SA units, Lincoln, LN5
Development works ONLY = £272,268 – S.198 election
Plant & Machinery Value = £139,986
Tax Saved by Ltd Co = £27,993

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- **Capital Allowances basics:-**
 - **They are not restricted only to property profits,**
 - **therefore you can set allowances against ANY income stream – this is called Sideways Loss Relief.**
 - **Holiday Lets, All Commercial properties, and some residential works all need to be included.**
 - **Values of between 8% - 150% of a clients Capital investment (including the building purchase price) can qualify**
 - **HMRC say 96% have NOT claimed!**

The scope of Capital Allowances

Capital Allowances incorporate the following types of tax relief:-

- **PMA's - Plant & Machinery Allowances**
- **BPRA - Building Premises Renovation Allowances** - ended
- **LRR - Land Remediation Relief** (150%)
- **ECA's - Enhanced Capital Allowances**
(<https://etl.decc.gov.uk/etl/site.html>)

Land Remediation Relief



Capital Allow



Land Remediation Relief

- 150% of all qualifying expenditure is allowable as a deduction.
- Can claim for associated costs also, interest, project management, overheads, investigation report etc.
- If you make a business loss, you can apply to HMRC for a tax credit – money paid into your account
- Applicable to all substances and elements which 'have the potential to cause harm'
- Typically for Asbestos, Japanese Knotweed, unexploded shells, Radon, Argon, Oil contamination
- Can only be claimed by a Ltd company entity
- Identify all costs, get builder to split out remediation costs, must have evidence of contamination – SI report

Enhanced Capital Allowances



Wood pellet burner / heat recycling

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Enhanced Capital Allowances

- 100% of all Energy Efficient qualifying expenditure is allowable as a deduction.
- List of items on DECC (Department for Energy & Climate Change) see https://etl.decc.gov.uk/engetl/fox/live/ETL_PUBLIC_PRODUCT_SEARCH
- Typically for boilers, Heat exchange, Air conditioning, BMS systems, Geo thermal Heat Pumps, HVAC zone controls, switchgear, Multiple Speed Motors, UPS etc
- Might need certifying if not on list, but is still a qualifying technology. If bespoke made and not an 'off the shelf' product.

AIA / WDA

- The amount you can claim in each year as a tax deduction is limited to the Annual Investment Allowance limit. Currently at £1,000,000, for new investments only until DEC'21
- Any allowances which don't fall into the AIA limit are allowed at 18% per year.
- You can go back to open tax years (currently 19/20 & 20/21) and make changes to your return to include CA's.

- Up to £28,000 of TAX is recovered for every £100,000 of expenditure on a property
- Increase ROI by up to 11.9% in yr 1.
- Failing to apply the new rules properly will prove costly to purchasers – even potentially damaging the market price of affected properties.
- Know who your buying from

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