

Investing in business premises? Act now to maximise your tax relief

Investing in your business premises can put a strain on your cash-flow, so it's wise to ensure that you maximise your tax relief on the expenditure.

Most businesses are aware that tax relief is available on some capital expenditure through capital allowances but this can be a complex area. The good news is that there is potential for significant tax savings if allowances can be maximised.

What is eligible can be highly nuanced, so it is worthwhile obtaining professional advice for any significant development or refurbishment projects. There are also other lesser known capital expenditure reliefs which could be valuable to your business.

Full expensing

'Full expensing' is a 100% first-year allowance which allows companies (not unincorporated businesses) to claim a full deduction from taxable profits for their qualifying expenditure (uncapped) in the year that expenditure is incurred. This is available from 1 April 2023 until 31 March 2026.

Eligible assets must be purchased in a new and unused condition and not be bought to lease to someone else. However, there is a special provision which allows background plant, machinery and fixtures contained within leased properties to be qualifying assets. Special rate assets will not qualify for full expensing, but can instead attract a 50% first year allowance.



If a company sells an asset on which it has claimed full expensing, or the 50% first-year allowance, an immediate balancing charge arises, so the Annual Investment Allowance may be a more attractive option and used in priority.

Annual Investment Allowance (AIA)

Businesses are entitled to a 100% deduction for their first £1,000,000 spent on assets (other than cars) which qualify for capital allowances. The AIA was increased to £1m for expenditure after 1 January 2019 and is now permanent.

Writing down allowances can then be claimed on additions not covered by the AIA.

The AIA is shared across companies that are both under common control and either share premises or engage in similar activities so optimising relief involves consideration of other group companies.

Structures and Buildings Allowance (SBA)

This new allowance was introduced in the 2018 Budget and is available for the costs of physically constructing buildings and structures and this can include renovations as well as rebuilds. Only contracts and works entered into after 29 October 2018 fall into this new regime.

The allowance is currently set at 3% per annum on a straight line basis. SBA does not apply to dwellings nor to the cost of the land on which the construction is taking place.

Fixtures

Although capital allowances can't be claimed on land and buildings, some fixtures are eligible for relief.

In particular "integral features" (which include electrical, heating, air-conditioning and water systems) are eligible for capital allowances at 6% per annum.

Thermal insulation of an existing building can also obtain relief at the same rate.

Plant and machinery

A new build or refurbishment may also involve the installation of new plant and machinery which qualifies for an 18% writing down allowance.

Typical examples include:

- Computer systems and data cabling
- Security and fire safety systems
- Signage
- Lighting etc. if used for the enjoyment of customers in the hospitality industry

Building alterations that would otherwise be considered ineligible may qualify if they are for the purpose of installing plant and machinery (for example concrete bases).

Commercial property purchases

When a property is bought or sold in order for the purchaser to secure capital allowances, both parties must make a formal election agreeing what proportion of the sale price they wish to attribute to the capital allowances pools. In general the seller will prefer a lower figure, whereas the purchaser will want a higher value. As both parties' tax position will be affected by the election, this should be factored into any negotiations.

In 2012 the rules on fixtures were tightened so that, as well as making the election, the vendor must have pooled the qualifying expenditure in order for the allowances to be available to the purchaser.

Failure to act early on in the negotiation may mean that allowances are lost going forwards.

Please note that the information contained within this factsheet is not intended to give specific technical advice nor should it be construed as doing so. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein. The firm's full name and a full list of Partners is available on our website.



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Land Remediation Relief

Businesses decontaminating land can take a deduction for the related expenditure (whether capital or revenue) in full, plus an additional deduction of 50%. Claims can be made in relation to:

- Japanese knotweed
- Asbestos
- Other industrial pollutants

If this puts a company in a loss-making position then it is possible to surrender that loss for a cash payment, at a rate of 16%.

Repairs

Finally, it's always worth remembering that all genuine like-for-like repairs of premises will be 100% deductible as a revenue expense. A detailed analysis of a building project may highlight items for which immediate tax relief can be obtained.

If you would like any more information on tax relief for capital expenditure please contact Judith Pederzolli (jpederzolli@pem.co.uk)



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