Maximising tax value for your customers – Capital Allowances

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Capital Allowances

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- Fixtures and “Integral Features”
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Capital Allowances – Update

- **What is plant & machinery**
- Years of case law – in vast majority can be simplified thus:
- Premises – property **<u>in which</u>** business is carried on
- Plant – property **<u>with which</u>** business is carried on
- Alternatively there are specified lists of items which <u>may</u> qualify notwithstanding the general rules on buildings and structures:
  - "List C" – s23 Capital Allowances Act (CAA) 2001
  - "Integral features" – s33A CAA 2001
  - Other provisions

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Capital Allowances – Update

- **Why is it important?**
- Tax relief on plant & machinery – over useful life of asset.
- On smaller projects, possibly full tax relief in year of project
- Tax relief worth up to 23% of costs for companies, more for unincorporated businesses (or where company owners own property outside of the company)
- Non-qualifying costs obtain <u>no tax relief</u> until the building is sold

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Capital Allowances – Update

- **Key rates & allowances**
- Integral features – WDA now 8% (previously 10%)
- Plant & Machinery – WDA now 18% (previously 20%)
- Annual Investment Allowance (AIA) – now £250,000 for a two year period to 31 December 2014 (previously £25,000)

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Capital Allowances – Update

- **Annual Investment Allowance**
- Up to March 2012 - £100,000
- Up to December 2012 - £25,000
- Up to December 2014 - £250,000
- From January 2015 - £25,000 (presumably)
- Extremely complex transitional rules!

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Fixtures – plant and “integral features”

- **What are integral features?**

- Bulk of a construction claim will be on “integral features”
- Relatively new class of asset introduced in 2008
- Lower annual allowance rate
- But can benefit from Annual Investment Allowance
- List of asset classes in legislation

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Integral features

- **The list**
- Electrical systems (including lighting)
- Cold water systems
- Space or water heating systems
- Powered ventilation systems
- Air cooling or purification systems, including floor or ceiling if part of system
- Lifts, escalators and moving walkways
- External solar shading

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New fixtures rules

- **Now even more important to claim**
- New rules for fixtures (2012 and 2014)
- More requirements for a purchaser of a property to be able to claim on fixtures
- Seller must have made a claim to allowances for the buyer to be able to
- If seller has not claimed, the buyer cannot (and nor can any subsequent buyers!)

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Identifying qualifying costs

- **Two methods to use**
- Detailed breakdown of costs by type
  - Details on the full quotation and schedule of variances
  - Tax adviser to identify specific qualifying items and apportion professional fees accordingly
- Engage Quantity Surveyor to review property on completion and provide a detailed report apportioning qualifying costs
- Latter option is popular with large construction projects, but could this be missing a trick?

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Enhanced Capital Allowances

- **Government targets**
- Committed to reduce carbon emissions by 80% by 2050
- Reduce reliance on diminishing oil and gas reserves
- ECAs have been around since 2000
- Qualifying technologies have been increasing in number, and lowering rates of Capital Allowances are making them more and more attractive

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Enhanced Capital Allowances

- **Benefits of ECAs**
- 100% allowances – over and above AIA
- Immediate tax saving at marginal tax rate
- Tax credit payment in a corporate loss position
- Specified lists of qualifying technologies
- Most technologies have a detailed list of products which manufacturers have registered and passed energy or water saving criteria

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Enhanced Capital Allowances

- **Tax credit payment**
- Corporate customer, not currently profitable, would normally just carry tax losses forward
- No tax benefit of allowances until profitable
- With ECAs such companies can claim a tax credit of 19% of the ECAs claimed (or total tax loss if less)
- Can claim up to **£250,000** in any accounting period
- Can claim more but only if PAYE and NIC bill for the year is big enough to cover
- Must retain equipment for 4 years

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Energy – qualifying technologies

- Energy Technology List (ETL) maintained by DECC
- air-to-air energy recovery
- automatic monitoring and targeting equipment
- boiler equipment – (not if qualify for RHI)
- combined heat and power (CHP)
- compressed air equipment
- heat pumps for space heating
- heating, ventilation and air conditioning (HVAC) equipment
- lighting – including high-efficiency units, control and LED units
- motors and drives
- pipework insulation
- refrigeration equipment
- solar thermal systems
- uninterruptible power supplies
- radiant and warm air heaters
- high speed hand air dryers

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Water – qualifying technologies

- List maintained on Defra website
- cleaning-in-place equipment
- efficient showers
- efficient taps
- efficient toilets
- efficient washing machines
- flow controllers
- leakage detection equipment
- meters and monitoring equipment
- rainwater harvesting equipment
- small-scale slurry and sludge dewatering equipment
- vehicle-wash water reclaim units
- water efficient industrial cleaning equipment
- water management equipment for mechanical seals
- water reuse systems

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Enhanced Capital Allowances

- **What qualifies**
- In most cases – specific makes and models will be listed on ETL or WTL (up to manufacturers to apply for recognition and pass energy or water saving criteria)
- Exceptions – Combined Heat & Power (CHP) systems, AMT systems, pipework insulation and lighting systems
- Lighting – installer must certify that criteria set out by DECC are met.
- Pipework insulation – comply with BS rating

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Enhanced Capital Allowances

- **Apportionment approach**
- The specific nature of ECA qualification means an apportionment approach will be insufficient
- Necessary to <u>specifically</u> identify items and provide copy invoices to support claim for ECAs by your customer
- **Crucial to consider ECAs at an early stage so as to maximise potential claims for your customers**

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Recommendations

- **Plan for ECAs at the outset**
- Bring up ECAs in your initial meeting to prepare for a tender – if the customer has not considered this, you can demonstrate a working knowledge that will add significant value
- Knowledge of specific items not necessary, but a working knowledge of the headline technologies will be very useful so you can identify the potential areas of benefit
- Ensure they are involving their tax advisers at an early stage so that necessary information can be collated concurrently with a project

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A marketing opportunity

- **Set yourself apart from your competitors**
- Consider showing in your marketing material that you are familiar with ECAs and are keen to add value to your projects by planning to maximise them
- Being able to demonstrate the value of potential claims can make a construction project considerably more affordable, and potential customers (and you) can factor into cost projections
- In many cases this could make the difference between a project being viable or not (or a difference maker in a decision to provide finance?)

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And if you or your customers need an expert…

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