

Capital Allowances - Integral features - a few complications

Capital Allowances either produce cash repayments or reduce cash payments, and as we know 'Cash is King'.

The Capital Allowances legislation changes with the introduction of integral features legislation effective from 1st April 2008 also includes a definition of replacement which for years has been the basis of arguments between taxpayers and H M Revenue and Customs (HMRC). The definition is specific to integral features. It is feasible that HMRC will use these rules in the future as a means to justify views taken in respect of the replacement of other assets. The goal posts on this matter may be about to move!

Integral features are broadly defined as electrical systems, cold water systems, water heating systems, air cooling or purification systems, lifts, escalators, moving walkways and external solar shading. Initial investigations show that the integral features increases the value of a claim by up to 25% thus greatly increasing the value of claiming capital allowances. Previously the owners of low specification buildings did not consider that Capital Allowances would deliver value to them - now they do.

An integral feature is defined as being replaced where the expenditure is 50% or more of the cost of replacing the integral feature at the time the expenditure is incurred. Replacements within this definition are eligible for capital allowances and not a revenue deduction as a repair.

This will create potential difficulties where repairs are re-characterised by law as capital as it will adversely affect the timing of the deduction for the repairs and potentially interact with capital gains tax computations. Additionally it will require property owners to maintain more detailed, accurate records to determine the future tax treatment of expenditure.

And if the above is not enough it is most likely that where buildings fitted out before 1 April 2008 (before 6 April 2008 for income tax purposes) are sold after that date then it will be necessary for an unconnected buyer to apportion the original purchase cost between buildings, plant and machinery and integral features. There are different rules for sales to connected parties.

If you would like to know more about how Capital Allowances affect your business, please contact one of our property team.

About Kingston Smith's property team

Kingston Smith is one of the fastest growing top 20 firms of Chartered Accountants. Our property team have considerable experience in Capital Allowances claims within the property sector and work with clients in property development, construction, investment and management. We help clients run their businesses more successfully by providing practical advice such as planning ownership structures to minimise their tax exposure. We provide accounting services ranging from bookkeeping and management accounts to the preparation and audit of year end financial statements, as well as helping to improve financial efficiency and source alternative methods of funding.

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