

## CASE STUDY

# UTILISATION OF CAPITAL ALLOWANCES BY A CORPORATE OWNER OCCUPIER

In the current market climate of late 2008, where profits are under pressure from economic influences, there may be companies that are unable to utilise all their available Capital Allowances on a current year basis. This case study sets out how a corporate owner occupier can utilise Capital Allowances from the qualifying plant and machinery within the property, other than against current year profits.

### Background

Company X spent approximately £12.5 million on a new office building for its own occupation. The construction cost, including professional fees was £9.47 million and an additional £552,000 was spent on fitting-out works. The qualifying expenditure for Capital Allowances in respect to the company's chargeable period ending 30 September 2008 is as follows:

	Total Expenditure £	Total Allowances £
Integral features	1,147,667	137,267
General plant	1,907,888	429,275
Enhanced Capital Allowances	182,333	182,333
	<b>3,237,888</b>	<b>748,875</b>

The qualifying expenditure was incurred on a monthly basis throughout the chargeable period and is, therefore, subject to the Finance Act 2008, which introduced integral features, annual investment allowance and revised writing down allowances. The sum of £142,500 was incurred between 1 April 2008 and 30 September 2008 (included within the total cost of £182,333) on energy efficient plant or machinery qualifying for Enhanced Capital Allowances (ECAs).

The company's profits chargeable to tax for the previous year (ended 30 September 2007) were substantial and subject to the full corporate tax rate, but it is anticipated that a trading loss (before Capital Allowances) will result in the current year.

### Options to consider

In accordance with the Capital Allowances Act 2001, Section 2, Capital Allowances are treated as an expense of the trade and can be used to create a loss in the current year, or they can be disclaimed in full or part and carried forward to a later chargeable period.

If the Capital Allowances are used to create a loss in the current year then the following options are available:

- Carry the loss forward and set against profits of a later year in accordance with the Income and Corporation Taxes Act 1988 (ICTA 88) Section 393.
- Set off the loss in the current year against other profits of the company in accordance with ICTA 88, Section 393A.
- Carry back the loss to the previous year in accordance with ICTA 88, Section 393A.
- Group relieve the loss in the current year in accordance with ICTA Section 402.

In addition to the above, the ECAs relating to qualifying expenditure from 1 April 2008 may be surrendered for a payable tax credit in accordance with CAA 2001, Section 262A and Schedule A1.

### The chosen solution

It was decided to carry back the full £748,875 of Capital Allowances as a loss to the previous year, as the benefit could be taken at the 30% corporate tax rate. A tax refund of £224,663 will be made by HM Revenue & Customs sometime around the due payment date of 1 July 2009.

The company did consider surrendering its post 1 April 2008 ECA expenditure of £142,500 for a payable tax credit of £27,075, but as the credit is given at 19% compared with a tax refund of 30%, there is no cash flow benefit to this alternative.

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