

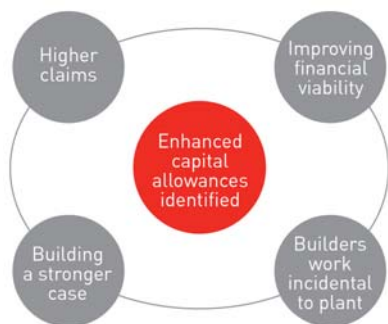
DATA SHEET

TAX AND PLANNING ON NEW BUILD AND REFURBISHMENT PROJECTS

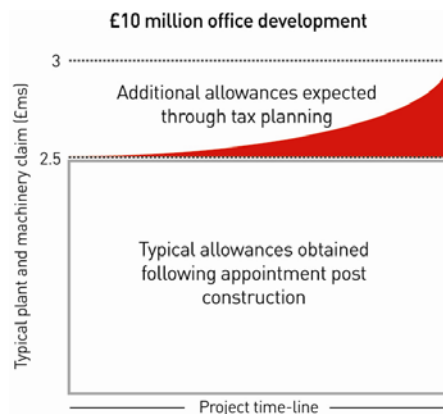
On many large or complex schemes, the claim for Capital Allowances is not investigated until after the building works have been completed; this can result in a lack of supporting data on which to base a claim, or even a substantial under-claim. Research has shown that the most successful claims for tax relief are achieved when specialists are involved early in the design process. By working closely with the design and construction teams, it is possible to identify all the higher risk items of capital expenditure which could qualify for Capital Allowances, but may be more difficult to substantiate if the exercise is left until construction works are complete. These items are often the ones investigated at a later stage by HM Revenue & Customs.

Some of the benefits of tax planning

- Optimised claim values, fewer HM Revenue & Customs queries and a stronger negotiating position.
- Items likely to be challenged can be identified at an early stage, allowing time to compile supporting evidence and build a stronger case.
- Contemporary documentary evidence can be captured.
- Enhanced Capital Allowances, which offer 100% first year allowances, are likely to be overlooked unless considered at the design stage when specifications are chosen.
- In a refurbishment scheme, the value of significant amounts of builder's work associated with the installation of plant and machinery will increase the tax savings, but may not otherwise be so easily identified.



- The value of allowances can be factored into financial appraisals, improving the viability of all schemes at a time when funding options are being considered.
- For investment properties, any items of non background plant can be identified early, either to factor in the reduced allowances or to restructure the expenditure to avoid the effect of Capital Allowances Act 2001, Section 34A.



Tests for qualifying plant and machinery

Capital Allowances form a complex area of the UK tax system and surprisingly, there is no definition of 'plant' in the legislation. Instead, the Courts have evolved tests which are often used by HM Revenue & Customs to determine eligibility:

- The 'business-use' or 'function' test considers the function of an asset in its particular business setting and how it may 'function' as plant. The more specialised the design of a building, the higher the value of claims relating to plant items requiring justification and legal argument.
- The 'premises test' looks at whether the asset is, or has become, part of the building. Eligibility can sometimes be determined by something as simple as the method of fixing. This can become an important consideration during the tax planning process. For certain items to qualify, detailed interpretation of the legislation and close scrutiny and understanding of functionality and methods of installation are pre-requisites to a successful claim. Without this level of planning and forethought, some items which could qualify may be disallowed.

Tax efficient design

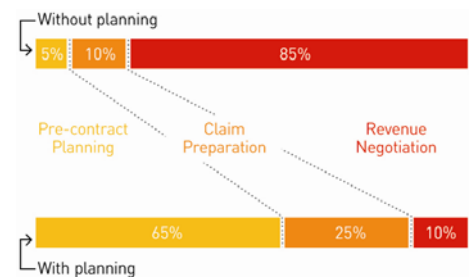
Design decisions will ultimately affect claim values, although such decisions should never be made purely for tax reasons. It is possible, however, to work in partnership with the architect and mechanical and electrical services consultant to achieve maximised results for tax purposes without compromising or affecting the design solution.

Additional benefits of early involvement

- It can provide effective information for post tax appraisal work.
- Advice can be given on tax efficient methods of dealing with statutory authorities.
- The impact of different types of lease incentives can be explored.

Time well spent!

The diagram below illustrates the relative amount of time that it could take to agree a large Capital Allowances claim that was subject to a Revenue enquiry:



The point of the diagram is to illustrate that whilst the total amount of time spent might not differ, the final value of the agreed claim will be higher because longer negotiations usually result in bigger reductions.

In summary

A tax planning service should facilitate the consideration of all the relevant issues in real time, allowing a far stronger case about why an item should qualify for Capital Allowances; this would not be possible if tax advisors were only appointed following completion of a project. Tax planning gives greater certainty and should produce increased claims. Early consideration is vital for pre-planning services to be effective.

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