

“Main Pool” — Plant or Machinery

Introduction

It is now over three years since the introduction of "integral features" in the Finance Act 2008. Following this legislation, the taxpayer had to adjust to thinking of plant and machinery in terms of different categories, attracting different rates of writing-down allowances. However, establishing which rate applies is not always a straight-forward matter and the purpose of this article is to clarify the main issues for consideration.

The “main pool”

The different categories of plant and machinery must be allocated to different pools. Expenditure may only be allocated to the main pool if it does not fall in a single asset pool, or a class pool. The main types of single asset pools, for property expenditure, cover short life assets and contributions. The main class pool covers “special rate” expenditure, which includes thermal insulation, long life assets and integral features. Expenditure allocated to the special rate pool attracts the 10% rate. If the plant or machinery expenditure is allocated to the main pool, then it will attract the 20% rate.

Integral features and “List C”

The starting point when deciding whether an item of plant or machinery can be allocated to the main pool (and thereby attract the 20% rate) is to consider whether it is an integral feature. CAA 2001, Section 33A(5), sets out a list of five items, which are integral features as follows:

- An electrical system (including a lighting system).
- A cold water system.
- A space or water heating system, a powered system of ventilation, air cooling or air purification, and any floor or ceiling comprised in such a system.
- A lift, an escalator or a moving walkway.
- External solar shading.

The above list is subject to change. If an item is removed from the list then it may start to attract the 20% rate, but additions to the list are restricted to items that would not otherwise be considered to be plant or machinery. The items of plant or machinery currently attracting the 20% rate will, therefore, not be reclassified as integral features under the current legislation.

If the item in question is clearly not on the above list, then it is likely to be a main pool item (subject to long life asset consideration — see opposite). An item is not an integral feature if it is covered by the 32 items contained on List C of CAA 2001, Section 23.

Where, however, an item could be covered by either list then the more specific categorisation will apply. For example, fire alarms are not integral features even though they could be considered as part of an electrical system and therefore, covered by Section 33A(5)(a) because they are specifically mentioned at item 10 of List C. On the other hand, lifts are not covered by the reference to “machinery” at item 1 of List C because they are specifically categorised as an integral feature at Section 33A(5)(d).

Sometimes, items of plant or machinery could be covered by either the integral features list or List C, but without a specific mention on either list. For example, both a building management system (BMS) and an uninterruptible power supply (UPS) could be viewed as either electrical systems or computer systems. In these circumstances, it is essential that the nature of the plant or machinery is fully understood. The UPS provides power to computer systems and therefore, could be viewed as an electrical system attracting the 10% rate. On the other hand, the BMS is a computerised monitoring and control system for all the main building services and is clearly a main pool item.

It should also be borne in mind that integral features are part of buildings or structures. Therefore, an item of plant or machinery that is not integral to either a building or a structure would not be covered by Section 33A. The legislation, however, is worded in such a way that it is theoretically possible for a chattel situated within a building or structure to be an integral feature.

Part integral feature

Some items will only be covered by Section 33A in part. For example, an automatic car park barrier is not an integral feature, but the electrical supply to it is. In such cases, Section 104B applies and the two parts are treated as separate items of plant or machinery and a just and reasonable apportionment of the expenditure is made in order that the expenditure can be allocated to the respective pools.

Long life assets

The fact that an item of plant or machinery is not an integral feature does not stop it from being allocated to the special rate pool, rather than the general pool. In addition to integral features, long life assets attract the 10% rate, along with the addition of thermal insulation to a commercial building under CAA 2001, Section 28.

The definition of a long life asset is set out at CAA 2001, Section 91, and basically refers to plant or machinery with an expected useful life when new of at least 25 years. For

example, floodlight towers (such as those in sports stadiums) are likely to attract the 10% special rate as long life assets, even though they are included at item 26 on List C.

There are, however, a couple of major exclusions from long life asset treatment:

- 1) Plant or machinery fixtures in a hotel, office, retail shop or showroom, or provided for a purpose ancillary to any of those uses, are not long life assets.
- 2) If the total expenditure incurred on long life assets within a 12 month period does not exceed £100,000, then long life asset treatment will not apply.

It is important, however, to note that the second exclusion will not apply to expenditure on a share of plant or machinery, contributions, or when the plant or machinery is leased.

Short life assets

Cases where short life asset treatment can be applied are set out in a table at Section 84. If expenditure on plant or machinery can be allocated to a short life asset pool, then it will attract the 20% rate. Special rate expenditure, however, cannot be added to a short life asset pool, which means that thermal insulation, integral features and long life assets are all excluded from short life asset treatment. In addition, most types of leasing are excluded and certain overseas leasing only attracts the 10% rate.

Incidental works

Where expenditure qualifies under Section 25 as building alterations incidental to the installation of plant or machinery, the rate applicable to the incidental expenditure will be the same as for the plant or machinery in question. A lift shaft installed in an existing building will, therefore, be special rate expenditure attracting the 10% rate, but expenditure on a shaft for the installation of a hoist in an existing building (Item 6 of List C, e.g. food hoist in a hotel) would be added to the main pool and therefore, attract the 20% rate.

Similar logic can be applied to items that, whilst not covered by Section 25, are only treated as qualifying expenditure because they function as part of plant or machinery. An example of such an item is an active façade. The additional inner skin of an active façade will qualify for capital allowances as part of the air-conditioning system. In such circumstances, it is logical that the item in question simply follows the categorisation of the plant or machinery to which it forms part. In the case, therefore, of the relevant part of an active façade, the 10% rate would apply.

Contributions

In accordance with Section 538, contribution expenditure must be added to a single pool for each item of plant and machinery covered by the contribution. Section 104D(2) states, however, that the 10% rate for special rate expenditure applies even if the expenditure is allocated to a single pool. The question as to whether the 20% or 10% rate applies to a contribution is, therefore, answered in a similar way as for Section 25 expenditure (see above). For example, a contribution to expenditure on kitchen equipment would attract the 20% rate, whereas a contribution to the cost of an air-conditioning installation would attract the 10% rate.

Summary and conclusions

If the item of plant or machinery is neither a long life asset, nor an integral feature, then it is likely to be a main pool item attracting the 20% rate. The only major exception to this rule, as far as property expenditure is concerned, applies to expenditure incurred on plant or machinery by way of a contribution. Even so, contribution expenditure will still attract the 20% rate unless it is a special rate item, i.e., long life asset, integral feature or thermal insulation.

Some items can consist of part special rate expenditure and part main pool expenditure, such as automatic car park barriers or dock levellers. In both these examples, the electrical supply will be treated as an integral feature and the remainder will be security equipment or machinery. In such circumstances, a just and reasonable apportionment between the two pools should be made.

It is important that the long life asset rules are not overlooked, as any items covered are special rate items and not main pool items. Consideration should be given to the type of property in which the potential long life asset is situated and also whether the de minimus limit of £100,000 could apply.

Finally, the correct treatment of plant and machinery as either special rate or main pool expenditure will sometimes depend on a detailed understanding of the nature of the item in question. This factor, coupled with the various legislative provisions as set out above, means that it is not always obvious whether the 10% or 20% rate applies. If in doubt, ask a specialist.

For further advice concerning any of the issues raised, please contact one of our key individuals detailed below, or alternatively call our helpline on 0800 526262. Information on other property tax related topics can also be found on our website at <http://bankingtaxfinance.davislangdon.com>.

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