

DATA CENTRES

Making the most of the tax relief's available





Enhanced capital allowances (ECA's) - 100% first year allowances

The third category of plant; data centres, disaster recovery and business critical facilities are high consumers of energy. These are generally considered to be fixed costs, increasing annually for any owner occupier or tenant. In the short term good house keeping measures will mitigate these costs, such as turning the lights off and regular maintenance. In the long term the tax burden can be reduced by utilising the benefits of energy efficient technologies, within both new developments and refurbishment projects.

In addition to reducing energy consumption and energy costs, ECA's can also assist in achieving a better EPC and BREEAM rating, reducing the tax bills and helping to meet the future CRC commitment.

Every £100,000 spent on ECA qualifying equipment results in a cash benefit of £28,000 to a 28% corporation taxpayer. In loss making situations up to £250,000 tax credit can be claimed by companies.

The following technologies are the main beneficial installations within a typical data centre facility:

Energy saving;

- Boiler equipment
- Packaged chillers
- Solar hot water systems
- Zone controls
- Lighting
- UPS
- Fire Suppression
- VSD's - pumps, motors and drives
- Integrated drives attached to pumps
- Pipe insulation

Water saving;

- Rain water harvesting systems

All the technologies listed above can qualify for a 100% first year allowances if the correct items are specified and installed. Failure to do so

Subject:

Data centres

Beneficiaries

Data centre developers/
owner occupiers/investors

Benefit:

Capital Allowances

Data centres - High plant and machinery content facilities

Data centres, by their nature use and contain a large amount of plant and machinery. Capital allowances are available on qualifying expenditure on various assets as listed below. We will look at the three main categories into which the plant falls. Each category of assets attracts a different rate at which allowances can be claimed and therefore, the speed at which the tax relief is received by the tax payer. The first two are:

Capital allowances

General plant - 20% per annum on a reducing balance basis.

- UPS systems
- Hot water installations
- BMS Sprinklers
- Fire alarms
- Sanitary installation
- Fixtures and fittings
- Signage
- Carpet

Integral plant - 10% per annum on a reducing balance basis

- HVAC
- Electrical systems
- Lighting
- Small power
- Plenum floors and ceilings
- Lifts
- External solar shading

Contact details

Louise Barth

Davis Langdon LLP
MidCity Place
71 High Holborn
London
WC1V 6QS
+44 (0) 20 7061 7000
Louise.barth@davislangdon.com

could result in the majority of them to falling into the 10% category resulting in the tax benefits being received over a much longer period.

New developments

Within new developments the base cost of the assets listed above can be increased by adding contract preliminaries, overheads and profit and professional fees. Typically we would expect over 50% of the total development cost to qualify for capital allowances.

Works within existing buildings

Much of the equipment installed in the last data centre boom in the 1990's is now obsolete and with the phasing out of R22 refrigerant, estate managers will be incurring expenditure in existing buildings for the foreseeable future. A large cost often overlooked when preparing capital allowances claims is the cost associated with installing plant into an existing building. Consideration should also be given to repair and maintenance costs contained with capital projects. It is not unusual to recover over 90% of the overall cost by way of capital allowances or revenue expenditure.

Land remediation

The majority of new data centres will be built on brownfield land which may be contaminated with hydrocarbons or Japanese Knotweed and will require assessment and remediation. These activities can be very expensive, but most likely would qualify for land remediation relief (LRR) valued at up to 42% of qualifying costs. Asbestos removal from existing buildings may be required as part of refurbishment works, this too qualifies for LRR. To take advantage of this valuable tax relief professional advice should be sought from the Davis Langdon Land Development team who understand the challenges associated with contaminated land and have specialist expertise and experience in LRR claims.

Tax savings - data centres

A typical Tier 3 data centre costing £20,000,000 to construct on a brownfield site in the UK could yield between £13m and 15.50m of capital allowances. This equates to a cash benefit in the region of £3.8m to a 27% corporation tax paying (from the 2010/11 year end following the Emergency Budget), plus any LRR identified. This cash saving is shown below.

INDICATIVE ILLUSTRATION OF THE CASHFLOW BENEFITS OF A CAPITAL ALLOWANCES CLAIM

Data Centre BLT example

UK

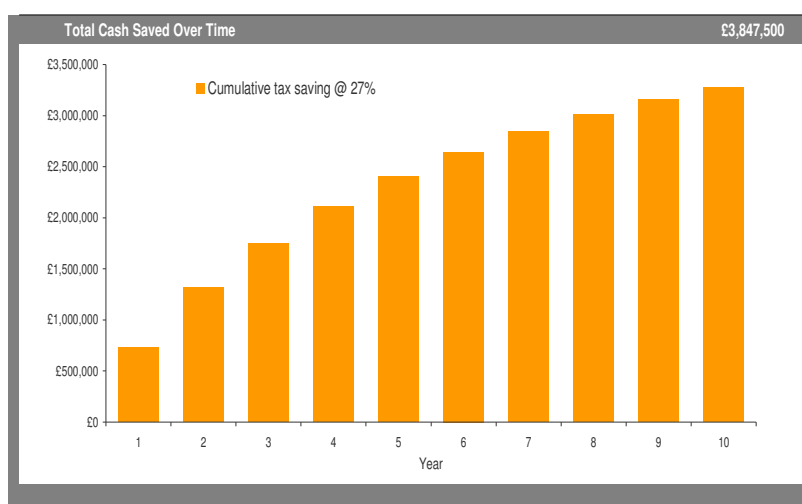
Expenditure considered £20,000,000

			Mid-Range
Integral Plant and Machinery (10% WDAs)	£1,200,000	to	£1,700,000
General Plant & Machinery (20% WDAs)	£11,800,000	to	£13,800,000
			£14,250,000

For the purposes of the illustration, mid-range figures have been used.

Tax Rate Used 27%

Year	Integral P&M 10% Pool	General P&M 20% Pool	AIA	Annual Claim (WDA's)	Cash Saving @ 27%
1	1,450,000	12,800,000		2,705,000	730,350
2	1,305,000	10,240,000		2,178,500	588,195
3	1,200,600	8,396,800		1,607,472	434,017
4	1,104,552	6,885,376		1,327,732	358,488
5	994,097	5,646,008		1,095,809	295,868
6	894,687	4,516,807		884,600	238,842
7	823,112	3,703,781		732,530	197,783
8	757,263	3,037,101		607,259	163,960
9	696,682	2,490,423		567,753	153,293
10	640,948	2,042,147		418,862	113,093



NOTES

1. The information used to compile this forecast is for illustration purposes only.
2. Allowances go beyond year 10 in totals shown above
3. Illustration excludes VAT
4. Illustration allows for proposed reduction in WDA's to 8% and 18% from 2012

All the data, including cash flows, clause references and tax rates (where applicable), were correct at the time of printing, dated December 2010. We strongly recommend before acting on any information contained herein, that you contact the Banking, Tax & Finance team to ensure no subsequent changes have occurred.

Cost Management | Project Management | Program Management | Banking Tax & Finance | Building Surveying | Design Management | Engineering Services | Health & Safety Services | Legal Support | Management Consulting | Mixed-use Masterplanning | People, Place, Performance Consulting | Specification Consulting

<http://bankingtaxfinance.davislangdon.com>