

# HOTEL DEVELOPMENTS

Making the most of Enhanced Capital Allowances





**Subject:**  
Hotels

**Beneficiaries**  
Hotel developers/investors

**Benefit:**  
Capital Allowances

### Hotels - High energy users

Hotels, by their nature and use can be high consumers of energy and water resources. These are generally considered to be fixed costs, albeit annually increasing in price, for any owner occupier or tenant of a hotel property. Good housekeeping measures mitigate costs in the short term (turning off lights, fixing dripping taps, turning down heating etc.), but it can be useful to appreciate the benefits of new technologies in new developments and refurbishments over the longer term.

Modern buildings and refurbishments can take advantage of a wide range of innovative technologies that can significantly reduce both energy and water use in hotel operation. They are often only a small additional cost in these projects and the types of technology involved can range from efficient insulation and equipment to sophisticated control mechanisms.

The installations can have more than just the advantage of reducing energy and water use and the direct benefits of saving the costs in this area, they can also:

- Assist a better BREEAM rating.
- Enhance an EPC rating.
- Save UK tax for an investor.
- Help to meet the future requirements of the carbon reduction commitment.

### Types of energy and water saving technology

The following technologies are the current main beneficial installations that can appear in hotel developments. They are all extracted from the full list of qualifying technologies which can be found at the website [www.eca.gov.uk](http://www.eca.gov.uk) maintained by the Carbon Trust:

#### Energy Saving

- Energy efficient boilers
- Energy efficient chillers
- Heat pumps for space heating
- Controls
- Efficient lighting and lighting controls
- Motors and drives
- Pipe insulation
- Solar thermal systems

#### Water Saving

- Efficient showers
- Efficient taps
- Efficient toilets
- Efficient washing machines
- Leakage detection meters and monitoring equipment
- Rainwater harvesting equipment
- Grey water recycling equipment

### Tax savings

All of the technologies listed above can qualify for a 100% first year allowance if the correct items are specified and installed. Correct specification can be very beneficial because, otherwise, most of these items will only usually attract a 10% reducing balance writing down allowance in a company's tax calculations if the installed equipment is not on the list.

### Modelling the potential tax savings

We have looked at a typical hotel of 3-4 star quality with air conditioned bedrooms and a typical provision of front of house and conferencing facilities with the following headline statistics:

Number of beds:	200
Area:	8400m <sup>2</sup>
Total capital cost incl. fees (excluding land):	£15.5m

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## Capital Allowances

The Capital Allowances within a building of this nature could be as indicated below with alternatives with and without, the maximisation of Enhanced Capital Allowances:

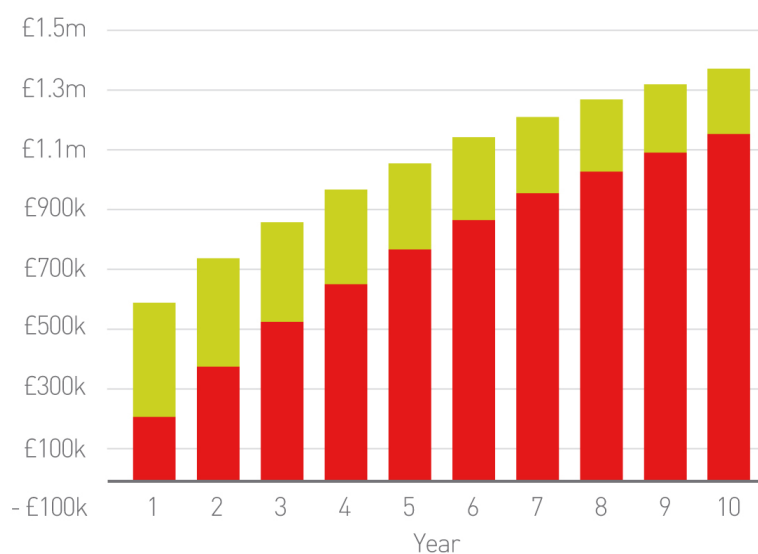
	Without ECAs	With ECAs
Integral plant	£4,000,000	£2,600,000
Main pool plant	£2,400,000	£2,300,000
Enhanced capital allowances	Nil	£1,500,000
<b>Total plant and machinery</b>	<b>£6,400,000</b>	<b>£6,400,000</b>

## Tax savings

The tax savings in each case will provide the following tax relief for a 27% corporation tax paying company (from the 2010/11 year end following the Emergency Budget) over the first ten years of the investment as indicated (the cumulative cash flow benefit is illustrated by the green column in the graph).

Further information is available on our website <http://bankingtaxfinance.davislangdon.com> or for an informal discussion without obligation please email any questions or comments to [andy.white@davislangdon.com](mailto:andy.white@davislangdon.com).

	Cumulative Without ECAs	Cumulative With ECAs	Difference	Additional benefit from ECAs
	£	£	£	
Year 1	203,040	594,160	391,120	193%
Year 2	378,173	742,795	364,622	96%
Year 3	529,730	870,034	340,304	64%
Year 4	661,321	979,300	317,979	48%
Year 5	775,953	1,073,432	297,480	38%
Year 6	876,140	1,154,793	278,653	32%
Year 7	963,989	1,225,348	261,359	27%
Year 8	1,041,263	1,286,734	245,471	24%
Year 9	1,109,448	1,340,320	230,871	21%
Year 10	1,169,794	1,387,249	217,455	19%



All the data, including cash flows, clause references and tax rates (where applicable), were correct at the time of printing, dated June 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.

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