

HOTEL PURCHASES

Making the most of Capital Allowances





The high values are simply because hotels contain a greater value of allowable fit-out than other types of property including en-suite rooms, fitted furniture, bars, reception and decorative fittings in addition to the usual mechanical and electrical plant items.

Often overlooked

In many cases vendors have overlooked values through lack of knowledge or advice, to the benefit of purchasers who can then claim based on an apportionment of the purchase price they pay for the land and buildings. Chattels will also be claimable at the price in the contract.

The results

This leaves many transactions open to review and some time spent on due diligence can reap benefits.

Benchmark data from current and past claims indicates the following potential allowances value ranges based on purchase prices:

- Small budget and provincial hotels
15%-20%
- Boutique city hotels
20%-25%
- Larger four star plus city hotels
20%-30%
- Country house hotels
10%-20%

Values need to be split between integral plant and main pool plant following changes to the regime from 1 April 2008. Hotels, again, benefit from greater relative levels, the more beneficial of main pool plant.

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.

Subject:

Hotels investments

Beneficiaries

Hotel investors and owner managers

Benefit:

Capital Allowances

What have you bought?

When purchasing a hotel the purchase agreement will often split the price into:

- Land and building
- Chattels
- Goodwill

What does this mean for the capital allowances? The answer is very little, because the values we are interested in lie not in the chattels or goodwill, but within the land and buildings.

Fixed plant

Capital allowable fixed plant includes mechanical and electrical installations, fittings, fixed equipment and ambient fittings forming part of the land and buildings.

Values in hotels can be significant. Potentially 30%-45% of building costs and 15%-30% of a purchase price could qualify.

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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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