

Portfolio of 20 Branded Hotels, United Kingdom

Challenges

- The client purchased a portfolio of 20 operating hotels in general need of refurbishment works, which was substantial in many cases, to maintain their brand quality and trading position.
- This was to be achieved by a programme of expenditure, comprising various refurbishment projects of different scales, together with direct expenditure on fixed equipment and FF&E. The hotels remained operational throughout.
- It was necessary for us to monitor and analyse both the projects and the direct expenditure and analyse these between the allowable categories.
- Issues that applied included:
 - Demolition of plant.
 - Works incidental to plant installations.
 - Enhanced capital allowances.
 - Ambient fittings.
 - Maximising revenue expenditure.
 - Asbestos remediation.



Solutions

- The client had tight reporting timescales following their year end.
- Required a two-stage analysis where the capital accounts were reviewed two months before the year end. This allowed the analysis of the majority of the works with the final expenditure to be analysed early in the first month after the year end.
- Enhanced capital allowances were a priority for the fund and were pursued where possible. It was not an easy task to assist with pre-planning to maximise these installations, but many of the qualifying technologies were correctly specified.
- Revenue expenditure was also high on the agenda. Consideration was given to each item as to whether it was a like for like replacement or repair or maintenance item, rather than an enhancement or addition.

Results

- In total around 87% of the expenditure qualified as plant and machinery, enhanced capital allowance or revenue. The remainder qualified for the final years of hotel allowances.
- Within this 61% was identified as plant and machinery and 21% as revenue deductible expenditure. Of the plant and machinery 4% qualified for enhanced capital allowance as energy saving plant and a small proportion was identified as qualifying remediation works.
- The totals would represent a tax saving of over 20% of the costs to a UK corporation tax payer.

- At the time, the client was not in a profit making position and so could take the opportunity to claim a 19% cash credit from HM Revenue & Customs for the amount qualifying for enhanced capital allowance.

Reflections

- Ideally it would have been beneficial to have been able to be more involved in the projects at the implementation stage to ensure potential enhanced capital allowance qualifying plant was correctly specified.
- This did not seem to have too much of a detrimental affect to what eventually qualified in this case but there can be situations where incorrect specification can cause disappointment.
- The two stage process was essential to meet the client's timescales and generally proved to be a reasonable way of addressing this issue. Although, in the earlier period of the process when large amounts of expenditure were being incurred, significant time and resources were required to ensure all contracts and expenditure were adequately reviewed.