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ENHANCED CAPITAL ALLOWANCES - THE FORENSIC AUDIT

Introduction

100% first year allowances for new installations of energy and water saving plant and machinery are becoming an increasingly significant part of any building project. They are particularly beneficial when they apply to items of plant that would otherwise only attract a 10% reducing balance writing down allowance.

Pro-active planning with the design team can ensure maximum benefit through the precise specification of qualifying plant in your development. The insertion of relevant clauses in construction contracts can oblige contractors to provide the necessary details to support claims.

Constraints

Clearly, where due consideration has not been given to ECAs at the outset it can be difficult, if not impossible, to obtain the relevant co-operation from the contractor, sub-contractors or suppliers post construction.

For the purchase of a development, contractor designed projects or those requiring a retrospective analysis of expenditure, there is often no obligation on those who were responsible for the design and construction to provide relevant cost or specification information to support claims. In these cases the contractor may be unwilling to provide information that would disclose his mark-up. Key personnel may have moved on and there may be a lack of resource, time or inclination to be of assistance. Professional advisors can be in the same position and often records are archived on or before completion.

In these instances the only solution is to carry out a forensic analysis of the constructed building for ECA purposes. Where this is the case, the process involved would include the following:

Find out what information is available

Firstly we need to establish what level of information exists. Useful information will be:

- Original M&E and building specifications.
- M&E drawings.
- Operations and maintenance (O&M) manuals.

Explicit documentation is very useful, although in most cases specifications are likely to be performance based, rather than prescriptive. Drawings often contain little detailed information, but can be useful in establishing how systems work. O&M manuals are most likely to indicate precisely what was installed, but experience suggests their quality and detail varies immensely. Another source of information would be the commissioning manager or engineer's report.

Survey

To verify the installations and where documents are not precise, a detailed physical site survey to identify and record the assets installed should be carried out.

A full survey of all areas of the building should be undertaken to identify ECA equipment. Sufficient time needs to be invested in the plant areas with the following in mind:



- Taking photographic records of all claimable items.
- Identification and understanding of equipment and systems.
- Identification of relevant system manufacturers and suppliers.
- Understanding the components of offsite manufactured packaged plant.
- Recording of all serial numbers and equipment codes of components and equipment.

Consideration needs to be given to the identification of water saving equipment such as taps, showerheads and the like, which do not tend to have any visible identification marks. Some water storage tanks may be buried in the ground.

Review and dissection

Once all relevant information has been obtained the process of establishing eligibility can be undertaken. It will involve reviewing the Energy Technology List (ETL) and the Water Technology List (WTL) for the following:



- Is the technology one of those listed and is the specific item on the list?
- If a listed item, was it on the list at the time of its purchase by the Client?
- If performance criteria are required, does it comply with these requirements?

Claimable cost

Once eligibility is established it is still necessary to determine the claimable cost. Where no actual information is available, manufacturer's list prices will need to be obtained.



In many cases you can add the cost of transport and installation and a percentage for main contractor's preliminaries and on costs. Professional fees are also allowable. In some cases, however, where claimable items are smaller integral parts of larger equipment, the ETL will provide prescribed claimable values which cannot be exceeded.

Conclusion

Whilst the evaluation of items qualifying for ECAs is best addressed early, prior to the finalisation of the mechanical and electrical specifications, the above demonstrates that a claim is still possible where original data is absent or the exercise is approached post construction.



For further advice concerning any of the issues raised in this briefing, please contact one of our key individuals detailed overpage, 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>.