



CAPITAL ALLOWANCES ESTIMATE

Watermark Kent – tax relief claims for purchasers



The development is being offered for sale as freehold buildings to owner-occupiers or investors. It comprises 13 office units being sold as completed buildings with a range of sizes from 235 sqm (2,530 Sqft) to 647 sqm (6,969 sqft).

Where a purchaser has a UK taxpaying liability, it will be possible for them to establish a claim for Capital Allowances tax relief for the Fixed Plant & Machinery content of their building.

Davis Langdon Croser & James are the UK's largest consultancy advising on property tax reliefs and have over 50 years experience in preparing claims for allowances.

Interested parties are recommended to contact us for further detail in relation to the individual units.



Estimated Capital Allowances

As each transaction is a property purchase, tax relief in the form of capital allowances available on plant and machinery, has to be based on an apportionment of the purchase price paid. The relevant statute is CAA 2001, section 562. The apportionment procedure is set out in the Valuation Office manuals and requires that the following is calculated:-

- The land value based on a cleared site with planning permission for the current modern equivalent building
- The replacement cost of the building at the date of sale
- The replacement cost of the plant and machinery at the date of sale

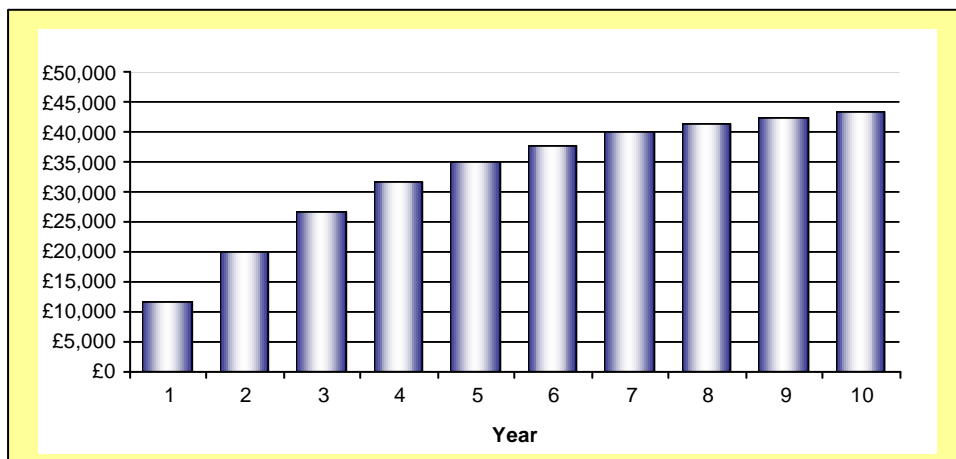
Based on this procedure and the estimated purchase prices at £225 per square foot, we estimate that the range of expenditure that would qualify for plant and machinery allowances is:-

15% to 17% of each purchase

The difference in the upper and lower end of the range reflects the potential variation in values that can be attributed to the above three variables. It is also due to the fact that there is no statutory definition of plant. This means that certain items of plant, such as parts of the electrical installation are at a higher risk of being disallowed than others.

Capital Allowances on plant and machinery are currently given at 25% per annum on a reducing balance basis; this will be reduced to 20% from year 2008-09 following the 2007 Budget (other changes are also pending).

In the illustrative chart below, taking a purchase price of around £950,000 it shows



The range excludes any allowance for unrecovered VAT paid on the purchase or for Stamp Duty Land Tax.

The figures shown are provided for illustrative purposes only and cannot be used as a basis for the inclusion or making of any capital allowances claim in any tax return.



the cumulative savings over a ten year period at a 30% tax rate – reaching a **total of £45,000**. Capital Allowances are a headline deduction from gross profit and therefore will always reduce the top rate of tax being paid.

Selling a building

Allowances for Fixed Plant & Machinery are a permanent benefit for the taxpayer and at the time of a future disposal of the asset it will be possible to enter an election under s.198 of the Capital Allowances Act to retain the benefit of the tax savings.

Capital Gains Tax

Although a purchase claim for Capital Allowances may appear to be reducing the land & buildings figure, it in fact has no effect on the calculation of a gain for Capital Gains Tax purposes. The input price remains as the figure paid for the property.

Establishing a claim

The freehold interest being sold gives entitlement to claim capital allowances. The benefit of the allowances will vary with the circumstances of differing taxpayers. Our service includes an initial appraisal at no cost and if appointed, our fees are performance based. Please feel free to contact us for further advice.

FOR FURTHER INFORMATION PLEASE CONTACT

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