

tax claim can make. Wherever building work is undertaken on a care home, and the whole cost cannot be set off against tax as a revenue deduction, consideration should be given to claiming tax breaks through the system of 'capital allowances'. Most accountants will

Cutting the costs of building work



Ian Sutton of Suttons Capital Allowances explains how a well structured tax claim can cut net development costs by 10 per cent or more.

Imagine that you have been planning for months a project to build or refurbish a particular care home. The architect has come up with some exciting ideas and the bank negotiations, though stressful at times, have ultimately been successful; tenders have been received and a builder has been appointed; work is just beginning. If someone were then to walk up and offer to reduce the costs by 10 per cent, with no cutting of corners on the quality of the work, it would seem almost too good to be true. This, though, is the entirely plausible difference that a proper

claim for any items of moveable furniture but it is surprising how often tax relief on the building itself is overlooked. It is not usually the case that the whole cost can be claimed, but a big proportion invariably can and the rules have been more generous since changes were introduced from April 2008.

There are various reasons why the valuable tax breaks are often not claimed, or at least not adequately claimed. The first is simple but potentially devastating in its effects. Suppose that land is bought for £500,000, that a home is built at a cost of a million pounds and that it is furnished for a further amount of £150,000, the last category covering the costs of beds, chairs, tables, kitchenware and a host of other moveable items, described collectively in the negotiations as 'fixtures and fittings'. Standard accounting treatment will allocate £1.5 million to 'land and property' or some similar heading, and then £150,000 to 'fixtures and fittings'. Typically, the accounts are then passed to the tax department, who duly claim tax allowances on the £150,000. A long-term file note is probably made to keep the figure of £1.5 million at hand for the purposes of calculating a capital gain when the property comes to be sold.

There is nothing wrong with claiming tax breaks for the £150,000, except that the claim is not nearly big enough! What is

missing is the claim for a big part of the £1.5 million. For costs incurred since April 2008, tax relief will be due even on such fundamental expenditure as cold water and general lighting and other electrical systems. On top of those costs, relief will also be due for a huge range of items that form part of the main build costs, covering everything from alarm systems to ventilation equipment, and encompassing all sanitaryware, carpets, central heating, kitchen equipment and appliances, and much more.

Some accountants (and, it must be said, HM Revenue & Customs staff) do not understand the rules well. Common misconceptions by accountants include the idea that a claim is merely a cash flow exercise, or that anything claimed by way of capital allowances will be lost when calculating a capital gain, but both of these are technically wrong. In many cases, the full benefit of the allowances can be retained permanently, and the claiming of tax relief in this way never increases the capital gain when the property comes to be sold later on (though it may reduce the amount of an allowable loss if the property is sold for less than the £1.5 million).

Example

A recent example we were involved with concerned a new 60-bed unit, providing a number of different registration categories. Our work involved a full analysis of the expenditure across two accounting periods, ensuring that all qualifying costs were identified and formulating a claim that the accountant then incorporated into the company's annual tax return.

Of capital expenditure totalling £2.5 million, we identified around £1 million of costs on which capital allowances could be claimed. With a 28 per cent tax rate, those allowances are worth £280,000 and

even after deduction of the professional costs of doing the work, the benefit was equivalent to saving well over 10 per cent of the capital expenditure in question. The tax savings are spaced out over a number of years but are front-loaded so as to be worth more in the early years.

The principles are similar, but not identical, when buying an existing building. Depending on various factors, it may be necessary to use valuation skills in that case to determine the proportion of the overall cost that will qualify for allowances. It is quite possible, though, that a buyer would expect to claim allowances on about a third of the costs of the property when acquiring a care home: if £900,000 is paid for a small home, obviously including the underlying land costs, it may well be that tax breaks can be claimed on £300,000.

In all cases, large amounts of money hang on getting the details right. It is an odd fact that many professionals are less confident with this area of tax law than they are with other aspects. Core changes to the tax rules introduced in 2008, affecting both the range of costs that can qualify for relief and the timing at which that relief is given, have only made an already complex topic even more obscurely technical. Rightly or wrongly, the result is that those businesses that are in the know, and that really understand the underlying issues (or that have professional advisers who do so) can often negotiate in such a way as to enjoy a high proportion of the available tax relief.

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