

these reasons do not bear scrutiny – it is possible that the accountant will have identified all the allowances but it is surprising how often that is not the case.

At Suttons, we work alongside a client's accountants, helping to make additional claims for tax relief. The following example is typical of the work

If you don't ask...



A couple of years ago, a story hit the American press about an Ohio woman who called a builder in to do some work on her house. The builder knocked a hole in the wall and found wads of money stashed away up to 80 years previously, worth around half a million dollars.

Most of us do not have bags of \$50 bills sitting within our walls, but many properties do contain enormous hidden value in the form of unclaimed tax breaks. Care homes are prime candidates for such potential and changes to the tax rules introduced in April 2008 have only served to increase the possible tax savings. A tax repayment can be worth having at any time but in these periods of economic gloom it can be enough to save a business altogether.

The savings come from tax breaks, or 'capital allowances', on so-called 'fixtures'. Many owners think that they do not need to worry about these: the accountant will have sorted it out, or the property is old so the value of the fixtures must be low, or whatever is gained now will be lost if the property is sold in the future. In reality, most of

we do, though the figures have been rounded for simplicity.

Example

A client acquired a residential care home some four years previously for £700,000. The contract apportioned the cost £500,000 to the freehold, £100,000 to goodwill and £100,000 to chattels and loose fixtures and fittings. Capital allowances had already been claimed on the £100,000 for these fixtures and fittings.

We prepared an initial report and proposal and were eventually able to identify a further £100,000 of assets on which capital allowances could be claimed. The clients were higher rate taxpayers and so this was worth £40,000 to them.

When a property is bought, at least three sets of professionals are usually engaged – a surveyor, a lawyer and an accountant. Each of these will have some knowledge of capital allowances but typically none will have the specialist knowledge to maximise the legitimate claim that can be made. In this example, the contract (very typically) split the purchase cost three ways (goodwill, property, fixtures and fittings) and the accountant (equally typically) assumed that capital allowances could only be claimed on the £100,000 described as fixtures and fittings. It gets a little more technical here but the reality is that the fixtures we need to identify for the best tax breaks are not part of the fixtures and fittings at all, but are by definition part of the property. So as well as claiming for the whole of the £100,000 (as he did) the accountant could have claimed for a chunk of the £500,000 (which he did not do). Fortunately, it is usually not too late – as long as you still own the

property and the fixtures in question you can make a claim at any later date.

Exactly the same principles can apply to a portfolio of properties. Another case we were involved with was a client who had acquired a number of care homes over the years. Again the accountant had claimed for all the moveable items and in this case had also claimed for some of the more obvious fixtures. Working with both the accountant and his client we were able to identify further qualifying expenditure of £1.8m, worth around £500,000 in re-claimed tax for the company.

I said above that care homes are good candidates for such claims and this became even truer last year. Expenditure that can now qualify for tax relief includes the costs of the electrical installation, the cold and hot water systems, heating and ventilation, fire and patient alarm systems, all the sanitary ware, kitchen and other equipment, and much else besides. The claims in the examples above both related to purchases before April 2008 but the amounts involved for a purchase today would almost invariably be even higher – quite possibly as much as a third of the cost of the building would now qualify for tax relief.

But what if the property is old and the fixtures are clearly in a state of disrepair? Fortunately, this does not matter as a special valuation technique is used which is based on the replacement value rather than the market value of the items in question. It can even be an advantage – tax relief may be due once when the property is bought and again as and when the fixtures are replaced.

None of this is provocative to the tax authorities (though sometimes we find that we do need to provide a refresher course in capital allowances to some local offices). The tax law is in place and is ready to be used. Obviously there are simpler and more complex claims in practice, depending largely on the nature of the paperwork from the time of the purchase.

The story I mentioned at the beginning, where cash was found in the walls of the house, did not have a

happy ending. A legal wrangle between the builder and the owner of the house meant that the lawyers took much of the benefit and all the publicity allowed the heirs of the original owner of the property to lodge a claim too. Similarly, if a capital allowances claim is to be made for the value of the fixtures, it is essential that it should take place in a way that is cost-effective and that gives the benefit back where it belongs, namely to the owner of the property.

This raises two important practicalities: how do you find someone who is competent to do the work and what will it cost? Obviously you should look for a track record of genuine experience and expertise in claiming allowances on property transactions. But it is also essential to find an adviser who can offer professional valuation skills in apportioning the cost of a property between the fixtures and the rest of the property; in other words, a proper claim requires both tax knowledge and valuation experience, a relatively rare combination in practice. Finally, as each property is different, it is also highly desirable that the surveyor should have a hands-on knowledge of care home issues – it saves you time to have someone who hits the ground running and you are more likely to have the best possible claim in those circumstances.

As for the costings, there are wide variations in what you can expect to pay. To give an idea of the likely costs, our fees are always less than half of the first year's tax saving, and are typically less than 10 per cent of the overall saving. Some will charge more and others may charge less but to some extent you do get what you pay for.

Occasionally we find that all proper claims really have been made (though such cases are surprisingly rare). But we operate strictly on a no-gain no-fee basis. It is important to ensure that the tax saving is achieved for a fee which still provides for a positive gain in the first year of claiming.

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