

# Opportunities for Capital Allowances

Within Commercial Real Estate



## Introduction

At QuoinStone, we work with our specialist partner to provide our clients with the very best advice on Capital Allowances.

**This brochure shares some of our expertise, delving into various opportunities for Capital Allowances within commercial real estate, and providing a comprehensive overview of how these allowances can be leveraged to optimise financial outcomes.**

Despite the clear benefits, Capital Allowances are still not being maximised by commercial property investors due to non-specialist advisors preparing claims, or due to them being overlooked completely (from an incorrect perception that there are no Capital Allowances available to them).

The skill lies in identifying as much expenditure as possible, to include in the allowances that provide the most immediate saving. This is where QuoinStone can assist.



# Capital Allowances



## Capital Allowances on: **Development & Refurbishments**

Typically, 99% of commercial property developments and refurbishments now attract some form of tax relief. The most advantageous being full expensing, which provides a full 100% tax relief in the year of expenditure.

For UK and overseas companies, this represents a 25% net reduction in cost on all qualifying items (subject to the prevailing tax rate). For individuals and partnerships, the benefit can be as much as a 45% net reduction (subject to the prevailing tax rate).

The legislation has never been more complex so receiving the correct advice is essential in maximising the tax savings, improving cashflow and ensuring any claim is fully compliant.



## Capital Allowances on: **Property Acquisitions**

Capital allowances on commercial property acquisitions can lead to significant tax savings (typically, improving yields on purchases by between 0.20% and 1.00%). For example, purchasing an office building for £2 million could yield £400,000 in qualifying assets like HVAC systems, resulting in £100,000 in tax savings (at a 25% corporation tax rate).

Significant allowances are missed as it is often incorrectly perceived there is nothing to claim. The legal entitlement to claim position for the purchaser is different to that of the seller and should be carefully considered during the due diligence and price negotiation stage.

# Types of Capital Allowances



## Full Expensing

Full Expensing is a tax relief which allows businesses to deduct 100% of the cost of new development, fit-out, or refurbishment expenditure, and qualifying plant and machinery investments from their taxable profits in the year the expenditure is incurred.

The aim of full expensing is to incentivise businesses to invest in productivity-enhancing capital assets, by giving an immediate and full tax write-off, thus improving cash flow and reducing the tax burden in the year of purchase.



## Plant and Machinery Allowances (PMA)

This allowance applies to capital expenditure on qualifying items such as HVAC systems, lifts, and lighting. Developers can claim up to 18% annually for the main pool or 6% for special rate items on a reducing balance basis.



## Annual Investment Allowance (AIA)

AIA permits a 100% deduction for qualifying plant and machinery investments (excluding cars) up to an annual limit of £1,000,000. This applies to items such as electrical systems, plumbing, and other integral building features.



## Structures and Buildings Allowance (SBA)

SBA provides a 3% annual allowance on qualifying construction and renovation costs over 33 $\frac{1}{3}$  years. It applies to new or refurbished commercial buildings but excludes land, landscaping, and residential premises.

Structures and Buildings Allowances applies to expenditure incurred for new construction contracts entered into after 29 October 2018, and provides a 3% writing down allowance against expenditure, which was previously non qualifying for Capital Allowances.

The relief is not as straightforward to calculate, especially where properties are multi-let or multi-use, and there are various requirements to be met to enable a claim to be made.



## Enhanced Capital Allowance (ECA)

Focused on energy-efficient and environmentally beneficial items, ECA allows a 100% first-year deduction for investments in eligible energy-saving or water-efficient products. This supports sustainability in refurbishments and new builds.



## Integral Features Allowance (IFA)

IFA covers essential structural elements such as electrical wiring, water systems, and ventilation. A 6% annual writing-down allowance on a reducing balance basis is applied to these qualifying costs, enabling gradual cost recovery.



## Research and Development (R&D) Allowance

Developers can claim a 100% deduction on eligible R&D expenditures related to innovation in building methods, materials, technologies, or systems. It applies to new construction and refurbishment projects that involve technological advancements. It aims to support advancements in construction and property management.

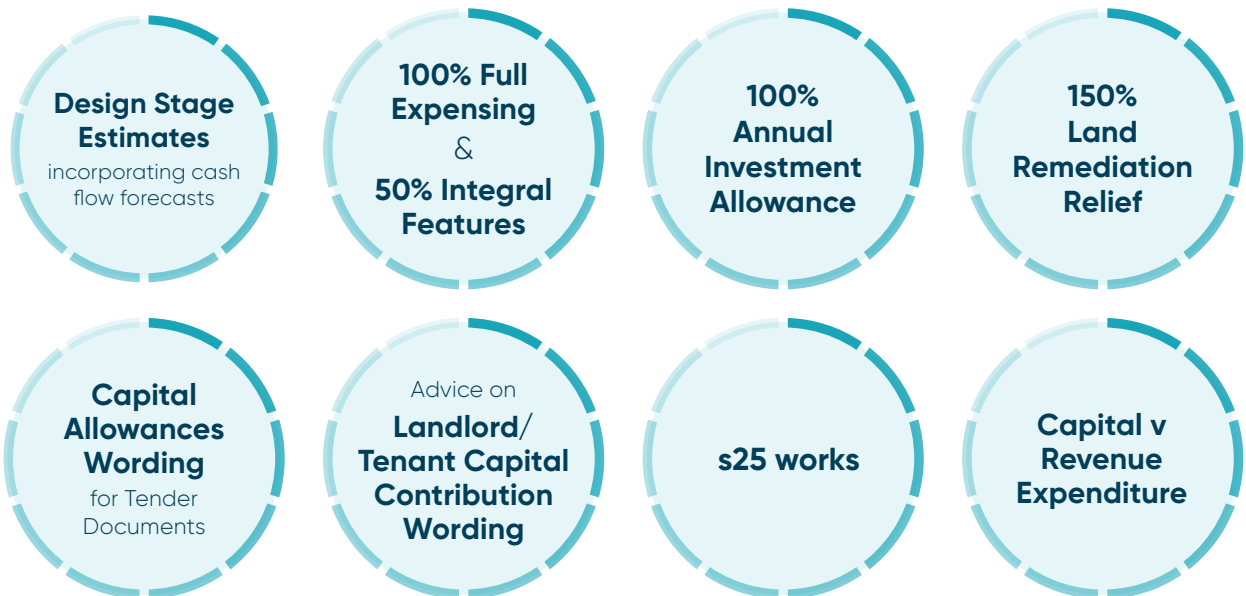


## Land Remediation Relief

This relief is often overlooked and offers a 150% deduction for expenditure incurred on remediating contaminated land or derelict sites. Costs related to the removal of pollutants, Japanese Knotweed, and asbestos, are typically eligible.

## Our Services

In addition to claim preparation and submission for new development, fit-out, or refurbishment expenditure, we can also provide the following advice to property developers to ensure maximisation of Capital Allowances:



## Portfolio Review

### Capital Allowances Portfolio Service

For property owners and investors, a portfolio review effectively identifies unclaimed or underclaimed allowances across multiple properties. It enhances compliance, increases tax savings, and reveals opportunities for retrospective claims. This holistic approach ensures landlords optimise the tax efficiency of their investments while staying within the bounds of current legislation.

Our Capital Allowances portfolio service extends from reviewing all historic expenditure, capex and acquisitions, analysing ongoing current expenditure (plus due diligence advice), to tax planning for future acquisitions, development and refurbishments, including the 100% Full Expensing Allowance and 50% integral features.

We provide client reports outlining the benefits identified, legal entitlement to claim notes, and cash flow saving forecasts against fees incurred. Fees are only charged where there is a material benefit realised by the client.

### Benefits of a Portfolio Review:

#### 1 Maximised Tax Savings

Identifying unclaimed Capital Allowances across multiple properties can lead to substantial tax savings and improved cash flow.

#### 2 Retrospective Claims

Allows the landlord to make historical claims on qualifying items, which can lead to tax refunds for previous years.

#### 3 Enhanced Property Valuation

Identifying Capital Allowances increases the tax efficiency of properties, potentially increasing their net asset value.

#### 4 Improved Compliance

Ensures compliance with HMRC rules and regulations, reducing risks of audits or penalties.

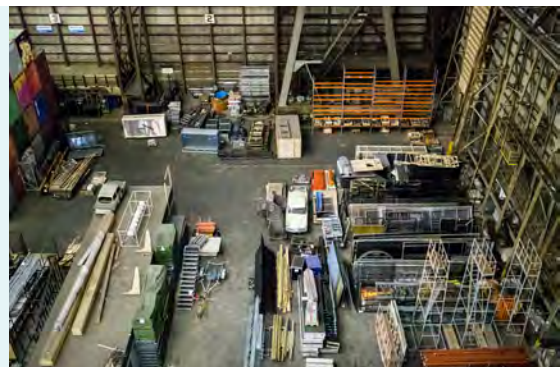
# Historic Capital Allowances Reviews

There is no time restriction to review historic expenditure, as long as the fixtures are still owned. It is not uncommon to review expenditure from 20–30 years ago which has never had a Capital Allowances claim submitted.

It is not necessary to have full cost information to support a submission to HMRC; our specialist partner can build up costs from first principle where necessary. Once identified, these allowances can be claimed in the current tax return and in prior years tax returns that remain open, providing immediate tax relief by reducing taxable income.

## 1 Pooling Requirement

For historical claims, all qualifying plant and machinery expenditures must have been identified and pooled within the tax return period when the expenditure was incurred. Unpooled expenditures may be disqualified from retrospective claims.



## 2 Past Ownership and Apportionment

If the property has changed hands, it's crucial to verify if previous owners have made Capital Allowances claims. Double claims are prohibited. Proper apportionment based on a purchase agreement's "Section 198 Election" is required to transfer allowances.



## 3 Time Limits and Record-Keeping

Although Capital Allowances claims are flexible regarding timing, there are time limits on making or amending claims for past tax years. Generally, the claim can be amended up to two years after the end of the relevant accounting period.



# Services for accountants and overseas investors

## Capital Allowances service for accountants

We work with many accountants providing them with the valuation expertise on property for their clients. We carry out the due diligence on acquisitions and sales including contractual advice, land valuations necessary to support any claim, and estimating building, plant, and machinery without detailed costs (using our surveying skills to identify and maximise the 100% Full Expensing Allowance and 50% Integral Features).

We have also developed Artificial Intelligence specifically to assist Accountants in identifying and maximising Capital Allowances on behalf of their clients.

We are keen to develop further relationships and provide technical updates and helpline to our partners.

## Capital Allowances for overseas investors

We work with a number of offshore property trusts advising their clients on Capital Allowances, not only for current expenditure (including the 100% Full Expensing), but also reviewing historic expenditure which has unrelieved Capital Allowances (due to the tax structures and liabilities in place at the date of the purchase or capex works).



## Find out more

Capital Allowances in commercial real estate offer numerous opportunities for tax savings across various sectors and circumstances. By understanding and utilising these allowances effectively, property owners, investors, and businesses can significantly enhance their financial outcomes.



To maximise these claims, it is essential to conduct a thorough Capital Allowances assessment at the time of acquisition, ensuring that all qualifying assets are identified and appropriately valued. Legal entitlement checks and advice on contract wording are at no cost through our specialist partner.

For more information on potential savings, please visit:  
<https://quoinstone.consulting/other-services/capital-allowances/>





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