

# Tax Newsletter



## Capital allowances – changes in tax relief from April 2008

For many it may seem as though the favourable tax regime for expenditure on capital items by way of capital allowances was here to stay.

The 2007 Finance Act, however, has signified the beginning of the end of Industrial Building Allowances (IBAs) and brought about changes to the classification of certain assets and a reduction in the rates of allowances. These changes will result in an extended period of tax recoverability for capital assets and an increased exposure of profits to tax. This brief guide analyses the potential impact on your business and indicates the urgent actions required in order to avoid lost opportunities.

### Industrial building allowances:

#### What is happening?

Industrial Building Allowances will be phased out over the next 4 years and there will no longer be a claw back of relief already given on the sale of the building.

#### When is this happening?

The reduction begins from 6 April 2008 culminating in the complete removal of the relief by April 2011:

Tax Year	Allowance
2007/08	4%
2008/09	3%
2009/10	2%
2010/11	1%
2011/12	0%

#### How will this affect my business?

The reduction and eventual removal of the allowance will mean the loss of tax relief on expenditure incurred.

#### What can be done about this?

- Cast an expert eye over previous years to see if expenditure categorised as IBAs can be re-categorised as plant and machinery to attract greater relief at 25%.
- Ensure all IBA claims are made as soon as possible.

## Fixtures integral to buildings

### What is happening?

A new rate of 10% will be applied to fixtures integral to a building.

### When is this happening?

HMRC are currently in a consultation stage about what will be classified as 'fixtures integral to a building' but these new rules will come into force from April 2008 onwards.

### How will this affect my business?

Certain fixtures currently attract 25% relief. From April 2008 the relief on these fixtures will drop to 10%. The proposed list is as follows:

- electrical systems (including lighting systems)
- cold water systems
- space or water heating systems, powered systems of ventilation, air cooling or air purification, and any floor or ceiling comprised in such systems
- lifts, escalators and moving walkways
- external solar shading
- active facades.

This reduction will extend the period of recovery (of 90% of costs) from 8 years to 22 years. It will also expose greater proportions of profits to tax.

Conversely certain expenditure which currently does not qualify for any relief may qualify for the 10% from April 2008.

### What can be done about this?

- Accelerate expenditure on integral fixtures to pre-April 2008 to benefit from the higher rates of allowances currently available.
- Defer expenditure which would currently qualify for no relief or the lower rate of industrial buildings allowance to April 2008 to benefit from the higher 10% rate.

## Reducing rate of capital allowances

### What is happening?

Capital allowances on plant and machinery will be reduced from 25% to 20%.

### When is this happening?

From April 2008 the rate of allowance will be reduced to 20% reducing balance.

### How will this affect my business?

This reduction has prolonged the time it takes to reclaim expenditure incurred on capital items. Whereas it used to take 8 years to reclaim 90% of the costs it will now take 3 years longer. This will have a significant impact on taxpayers who regularly claim capital allowances to reduce their taxable profits.

### What can be done about this?

- Revisit previous years' open computations to ensure that you are claiming all the allowances you are entitled to.
- Bring forward planned expenditure to pre-April 2008 to benefit from the 25% allowances.

## Annual investment allowance

### What is happening?

An annual £50,000 allowance is being introduced to replace the existing system of First Year Allowances.

### When is this happening?

The proposed allowance is currently in the consultation stage but it is expected to come into force for expenditure on plant and machinery in the general pool from April 2008 onwards.

### How will this affect my business?

Small and medium-sized enterprises will no longer be able to claim First Year Allowances in respect of expenditure on qualifying plant and machinery, instead all business will have an annual allowance capped at £50,000. Any expenditure in excess of the proposed £50,000 allowance will be dealt with in the standard capital allowances regime (i.e. an annual writing down allowance of 20%).

### What can be done about this?

- Small and medium-sized businesses who are intending investment exceeding £50,000 in qualifying plant and machinery should try to incur this expenditure before April 2008 to avail of the First Year Allowances.
- Businesses who do not qualify for First Year Allowances and who expect a low outlay on qualifying plant and machinery should try to defer expenditure until after April 2008 to avail of the new Annual Investment Allowance.

## Business premises renovation allowance

### What is happening?

Any individual or company who incurs capital expenditure on bringing qualifying business premises (owned or let) back into business use may claim a 100% initial allowance for that expenditure.

### When is this happening?

This allowance is available against qualifying expenditure incurred on and after 11 April 2007.

### How will this affect my business?

Business Premises Renovation Allowance provides 100% initial allowance for capital expenditure on the renovation or conversion of business properties that have been vacant for a year or longer in designated disadvantaged areas of the UK (Northern Ireland is a disadvantaged area for this purpose). It provides an enhanced rate of allowance for expenditure that currently qualifies for capital allowances, and new relief for renovation expenditure on commercial buildings (such as offices and shops), which did not previously qualify for any capital allowances.

### What can be done about this?

- When making a property investment consider whether a building which has been vacant for a year or longer would be suitable.
- If you have renovated or converted a previously vacant building since April 2007 check to see if you qualify for the Allowance.

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