



Purchase of Office Building - Apportionment Claim

Purchase in 2005 of a freehold modern good quality 3 storey office block situated on a Business Park development in Cheshire.

Having established that there were no restrictions on the entitlement to claim, a capital allowances claim was prepared as an apportionment of the purchase price under the provisions of Section 562 CAA 2001.

Facts

Purchase Price: £5 million

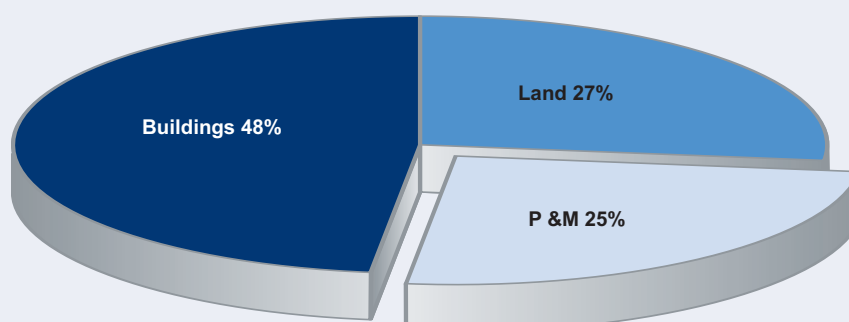
Gross Internal Floor Area: 3,700m²

Site Area: 1.68 acres

Description: Steel framed building with concrete upper floors and metal staircases. Brick walls faced externally under a pitched roof finished with profiled insulated roof cladding. Aluminium double glazed windows to all elevations.

Screeded concrete floors generally finished with medium quality carpet tiles to the office areas and ceramic floor tiles in WC areas. Walls finished with plaster and painted with emulsion in office areas and ceramic wall tile in WC areas. Ceilings generally suspended with acoustic tiles.

Four pipe fan coil air conditioning installations to office areas and gas fired central heating with wall mounted radiators to ancillary areas. Other services include hot water, sanitary ware, two 10 person passenger lifts serving three floors, fire alarm installation, public address system, emergency lighting, audio entry phone system and security alarm system.



Capital Allowances Analysis

Percentage of £5m Purchase Price

	£	Percentage of £5m Purchase Price
Apportionment of expenditure on qualifying machinery and plant	£1,250,000	25%
Apportionment of expenditure on land not eligible for capital allowances	£1,350,000	27%
Apportionment of expenditure on buildings not eligible for capital allowances	£2,400,000	48%

Cash Flow

In this case the capital allowances of £1,250,000 were available to the taxpayer to offset against tax at 25% per annum on a reducing balance basis.

The following table sets out the availability of these allowances over the first five years that the property is in the taxpayer's ownership, assuming a 30% corporation tax rate.

	Balance of Capital Allowances £	Annual Write-Down at 25% £	Tax Relief to a 30% Taxpayer £
Year 1	1,250,000	312,500	93,750
Year 2	937,500	234,375	70,313
Year 3	703,125	175,780	52,735
Year 4	527,340	131,835	39,550
Year 5	395,505	98,876	29,660

On the assumption that the property remains in the taxpayer's ownership for the 5 year period, the total tax saved will amount to approximately £286,000.

The net initial yield on acquisition was 8.5%, however after a 30% tax liability has been taken into account, this yield is effectively reduced to 5.95%.

Capital allowances relief of £93,750 in the first year alone has the effect of increasing the post tax yield to approximately 7.83%.