



Purchase of Shopping Centre - Overage Claim

Purchase in 2003 of a freehold major shopping centre in Kent.

Type of Claim

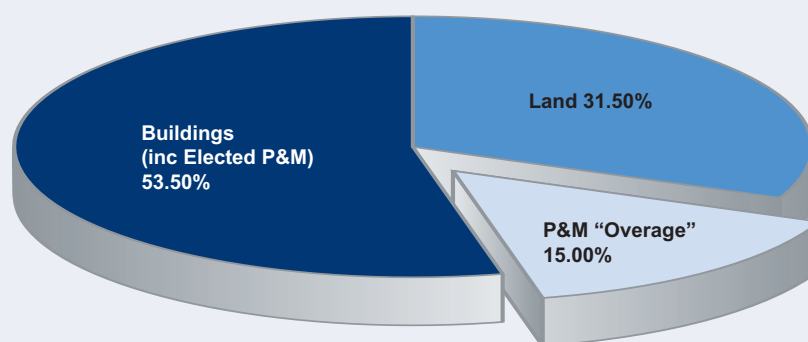
In this case the vendor had made a claim for capital allowances and brought a disposal value for the plant and machinery into account by way of an Election under Section 198 CAA 2001 for a nominal sum.

Having carried out further investigations it transpired that the vendor's claim related only to expenditure incurred on refurbishment works carried out some time after their acquisition of the property and that they had never claimed capital allowances relating to their original purchase.

The purchaser was therefore entitled to make an additional capital allowances claim for the "overage" relating to the unclaimed plant and machinery, based as an apportionment of the purchase price under the provisions of Section 562 CAA 2001.

Facts

Purchase Price:	£100 million
Gross Internal Floor Area:	65,000m ²
Site Area:	6.5 acres
Description:	<p>Concrete frame and upper floors with a variety of external wall finishes principally facing bricks with sandstone around principal pedestrian access. Generally concrete roof with asphalt with patent glazing in part over the malls. Aluminium windows to offices. Shops left open for tenants' shop fronts and finishings with screeded floors. Terrazzo tile paving and suspended ceilings to malls. Offices finished with vinyl sheet covered plastered walls, generally suspended ceilings and carpeted floors.</p> <p>Air conditioning and warm air heating to malls and offices, air handling units to all shop units for tenants connection. Extract ventilation to malls, service areas, car park and toilets. Sanitary fittings, hot water and drinking water installations, high density sprinkler installation to malls, service areas and all shop units, fire alarm installation, smoke extract to malls, car park and service areas, dry riser and fire hose reels. Emergency lighting, CCTV cameras, feature lighting to malls; six lifts to car park and three lifts to offices, sixteen goods lifts to service areas and three 'in store' goods lifts; public address system, sets of double escalators running between lower ground and first floors, automatic vehicle barriers and 'pay on foot' parking machines, garbage compactors and comprehensive signage.</p>



Capital Allowances Analysis

Percentage of £100m
Purchase Price

	£	Percentage of £100m Purchase Price
Apportionment of expenditure on qualifying machinery and plant	£15,000,000	15.00%
Apportionment of expenditure on land not eligible for capital allowances	£31,000,000	31.50%
Apportionment of expenditure on buildings not eligible for capital allowances including plant and machinery claimed by the vendor	£53,500,000	53.50%

Cash Flow

In this case the capital allowances on plant and machinery of £15,000,000 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	15,000,000	3,750,000	1,125,000
Year 2	11,250,000	2,812,500	843,750
Year 3	8,437,500	2,109,375	632,813
Year 4	6,328,125	1,582,031	474,609
Year 5	4,746,094	1,186,524	355,957

On the assumption that the property remains in the taxpayer's ownership for the 5 year period, the total tax saved will amount to in excess of £3,400,000.

The net initial yield on acquisition was 7.50%, however after a 30% tax liability has been taken into account, this yield is effectively reduced to 5.25%.

Capital allowances relief of £1,125,000 in the first year alone has the effect of increasing the post tax yield to approximately 6.38%.

For further information or a capital allowances assessment without obligation

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