



## Industrial Buildings Allowances

Industrial Buildings Allowances are available when capital expenditure is incurred on an “industrial building”, being a building or structure that is used for the purposes of a qualifying trade.

### Qualification

In order to qualify for Industrial Buildings Allowances (IBAs) a building must be used by the occupier for the carrying out of a qualifying trade. The most common qualifying trades include: -

- Manufacturing or the subjecting of goods to a process.
- Storage of goods or materials, where: -
  - they are used to manufacture other goods or materials by the building user.
  - they are subjected to a process by the building user (changing their format).
  - they have been manufactured and not yet delivered to the purchaser.
  - they have immediately arrived by sea, air or rail into the UK (storage in transit).
- Transport undertaking – may include airport undertakings, road and rail transport and haulage firms, bus and taxi companies.

Other qualifying trades include those carried on in a mill or factory; dock, inland navigation, water, sewerage, electricity or hydraulic power undertaking; tunnel or bridge undertaking; mining, agricultural contracting or fishery.

### Basis of Claiming IBAs

The qualifying expenditure for IBAs is generally the construction cost of the building. The cost of land is excluded and the cost of plant and machinery should usually be claimed under separate provisions of the legislation.

Where part of a building does not qualify, such as administrative offices forming part of an industrial building, IBAs are still available on that non-qualifying part providing its cost does not exceed 25% of the whole (10% prior to 16th March 1983).

The allowances are available to the holder of the “relevant interest”, that being the interest that the person who incurred the qualifying construction expenditure had when the expenditure was incurred.

### Example

A company has a 999 year lease on a piece of land owned by a Local Authority. The company develops a factory which they subsequently lease to a Manufacturing company occupier. In this case the relevant interest is the 999 year lease. Should the Manufacturing company at some time extend the property, the relevant interest for that extension only will be their leasehold interest.

Should a long lease be granted out of the “relevant interest”, the lessor and lessee can enter into an election, under Section 290 of Capital Allowances Act 2001, to treat the transaction as the sale of the relevant interest. The election must be made within two years of the lease taking effect, and cannot be made between connected persons. Such an election will be a balancing event on the lessor.

IBAs are available at 4% per annum (i.e. over 25 years) on buildings in qualifying use on or after 6th November 1962. Prior to that date IBAs are available over 50 years (latest expiry date will be 6th November 2012).

Where buildings are in non qualifying use at the end of a chargeable period the writing down allowance for that year will be lost.

### IBAs on the Acquisition of Qualifying Buildings

The qualifying expenditure for IBAs is the seller's residue of expenditure after sale. This generally equates to the vendor's residue of expenditure added to which (or deducted from) is any balancing allowance or charge. In cases where properties are sold at profit and have always been in qualifying use, the residue after sale will generally equate to the original construction cost of the building. If no residue of expenditure has been brought into account by a vendor, an estimate of the original cost of constructing the building will have to be prepared.

A purchaser of an industrial building, already in use, would be entitled to IBAs on the residue of expenditure after sale, noted above, and writing it down over the period from the date of purchase until the expiry of 25 years (or 50 years as appropriate) from the date the building first came into use.

Where no value for IBAs is included in the Contract of Sale (as is usual), it is reasonable to assume that the residue available to the purchaser is equal to the qualifying expenditure incurred by the vendor at his date of purchase. As stated above, this would normally be the tax written-down value plus the vendor's (maximum) balancing charge.

Where such information is unavailable, as is mostly the case, the residue would be calculated by taking the estimated cost of constructing the qualifying building at the date it first came into use, less the qualifying plant.

#### IBA Entitlement Examples

- Qualifying building purchased from developer by P in 1990

Purchase price	5,000,000
<b>Less</b> cost of land	500,000
<b>Less</b> cost P&M (separately claimed)	500,000
<b>Qualifying expenditure for P</b>	<b>4,000,000</b>
Writing-down allowances to P (4% per year)	160,000

- P sells the building to J for £8,000,000 in 2000. The building has been in qualifying use since 1990, except for the period from 1995 to 1998 when the building was in a non-qualifying use.

Qualifying expenditure for P	4,000,000
<b>Less</b> WDA's for 7 years at £160,000	1,120,000
<b>Less</b> Notional WDA's for 3 years at £160,000	480,000
Written-down value ( <b>Residue before sale</b> )	<b>2,400,000</b>
Purchase price (proceeds of sale) after the deduction of land and P&M exceeds the original cost, therefore the balancing charge will be calculated based on the original cost	4,000,000
Excess of sale proceeds	1,600,000
<b>Less</b> Notional WDA's (not claimed by P)	480,000
<b>Balancing charge</b> on P (equal to allowances given)	<b>1,120,000</b>
Qualifying expenditure for J ( <b>residue after sale, which equals the residue before sale plus the balancing charge</b> )	<b>3,520,000</b>
Writing-down allowances to J over remaining 15 year life (£3,520,000/15 years = £234,667 per year)	234,667

For further information or a capital allowances assessment without obligation

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