



Capital Allowances on Retail Properties

Are Capital Allowances Available to the Owner of a Retail Property?

Yes, in most cases but at a comparatively low level due to the majority of qualifying assets forming part of the tenant's fitting out works.

As with all capital allowances claims for plant and machinery the taxpayer must satisfy a number of conditions, including:-

- Incur capital expenditure on the plant and machinery.
- Use the plant and machinery in the course of a trade, either as an investor or as an owner occupier.
- Demonstrate that the plant and machinery belongs to the taxpayer.

What Qualifying Assets are Likely to Belong to the Landlord?

Most 'shell' retail properties will probably contain toilet facilities and a kitchenette, water heaters, door closers, panic bolts and perhaps some basic electrics to serve the tenant's plant, such as heating. There are also many cases where the property is purchased with reversionary plant from a previous tenant which might be utilised by a new tenant. This could extend a capital allowances claim to include security alarm, fire alarm and even heating.

Additionally, many retail properties have upper floors, which sometimes contain a small element of landlord's plant and which can in certain cases enhance the available capital allowances.

Is it Worth Making a Claim?

It is always worth considering a capital allowances claim, as even the most basic property will contain an element of qualifying assets to provide relief from corporation or income tax. However under normal circumstances the minimum cost of inspecting a property, preparing an estimate, evaluating and scheduling the qualifying assets as required by the Inland Revenue and agreeing the claim could, for most retail properties, outweigh the benefits available to the landlord.

As an illustration, PJB has found from experience that the average retail property acquisition contains in the range of £3,000 to £30,000 of qualifying assets. After analysing a number of retail property portfolios purchased between 2002 and 2004, the average sum claimed per property was in the region of £11,500.

Annual Cash Benefit



The graph shows that the actual cash benefit that could be obtained over a 5 year period by claiming capital allowances on a retail portfolio of ten properties with total qualifying assets valued at £220,000, assuming a 30% tax rate, could amount to in excess of £50,000

How PJB can Prepare a Beneficial Retail Capital Allowances Claim

PJB has received 'off the record' advice from a number of Inspector's of Taxes, that in most cases they would be prepared to accept a professionally assessed lump sum evaluation certifying the approximate value of qualifying assets in a retail property, providing the total does not exceed £25,000 to £30,000. Above this level it would be necessary to carry out a full exercise including a property inspection and prepare a detailed capital allowances schedule.

Over the last three years PJB have successfully prepared and agreed a number of retail "Certified lump sum" claims on behalf of retail portfolio property owners. Certified lump sum claims can be prepared without a site visit providing a detailed valuation report is available. This will normally satisfy the Inspector of Taxes without recourse of the Inland Revenue referring the matter for detailed scrutiny by the Valuation Office, as is always the case with standard detailed capital allowances claims for larger properties.

As a result PJB is able to offer a service on retail properties at a fee which will make all capital allowances claims in excess of £5,000 for retail acquisitions a worthwhile exercise.

For further information or a capital allowances assessment without obligation

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