

Overlooked benefit

David Rees discusses the financial benefit of capital allowances.

Procurring new premises is likely to be the biggest single change that most practices will undertake. It requires time and a good deal of commitment from the partners, the practice manager and their support staff. The result can be career defining for the participating individuals in creating the working environment that may encompass the greater part of their working lives, and as few practices will undertake this more than once it also represents a steep learning curve for all concerned.

Having defined the need to replace or move from the existing building and then considered what will be required

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in the new building, an early decision will be whether it is better to lease or own the new premises. The outcome represents an important consideration, as the two routes can be quite different in terms of the commitment they represent and the flexibility a partnership may have over its buildings in the future. It is not the purpose of this article to look in detail at all of these issues, our focus is on ➔

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● When moving premises take advantage of tax relief opportunities.

One specific aspect; that of the available tax relief in owning a new surgery. The decision to rent or buy is however often made without a full appreciation of all financial aspects, one of which will be the availability of capital allowances tax relief on the new building and this article will set out to offer a basic introduction to the subject.

What are they?

When expenditure on a doctors' surgery takes place, whether it is for a new build or a refurbishment, it will almost certainly contain elements that qualify for tax relief. The list of qualifying items is extensive with up to 240 categories. In a new-build surgery project this can often result in 30 per cent or more of the construction cost becoming tax relief. Thus in a £1m build, if £300,000 is tax relieved, then at the 40 per cent tax rate there are savings over time of £120,000 or 12 per cent of the budget. The issue is in the correct identification of the qualifying items and in breaking down construction cost information to separate out the costs for compilation into a claim that will be acceptable to HM Revenue and Customs.

Think early

Certainly the right time to give some preliminary thought to capital allowances is at an early stage while the build specification and budget are under consideration. If an initial review of a potential build cost identifies the level of tax relief available, then this can help stretch the budget to cover all of the items on the practice manager's and partners' wish lists and also result in a higher quality building. In the present credit crunch highlighting the bottom line tax savings will be particularly useful in enhancing the viability of financial presentations. Most banks have an awareness of the value of capital allowances savings and will include this in their assessment of a funding proposal.

Claiming

The expenditure on qualifying items will be broken into two pools of tax relief, and the benefit will be shared between the partners on a basis that is pro-rata to their contributions to the development funding. The basic plant and machinery is described as the 'integral features' and is specifically the heating/cooling, lifts/escalators, hot and cold water, and electrical system. This is claimed on a reducing balance basis of 10 per cent per annum. The rest of the claimable items are known as 'general plant' and include consulting room fit-out, kitchens, toilets, cupboards with the further benefit of a faster rate of write down at 20 per cent per annum.

Higher rated allowances

There are, however, also accelerated allowances known as enhanced capital allowances, which are available for low

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carbon emission and energy saving equipment and offer a 100 per cent tax deduction for items that are approved on a Government listing at www.eca.gov.uk. Therefore when planning a project, there is an opportunity to specify ECA items that lift the rate of tax relief from the basic 10 per cent per annum on integral features items, to a one-off 100 per cent deduction. Thus a £1,000 item is a deduction against tax in the year of expenditure and again at the 40 per cent tax band this means £400 in savings off the tax bill. It is essential to ensure that the project development team, in particular the mechanical and electrical consultant, is aware of the requirement to specify ECA qualifying items where possible. Low energy equipment will also offer savings in running costs for the longer term but this may not necessarily be an issue that

is considered in a leased surgery as the investor/developer may not see this as a priority for them.

Past expenditures

One of the useful features of capital allowances is that where these may have been overlooked, say on a new build surgery even ten years ago, this can still be reviewed and the unused allowances claimed by the partnership and brought into current tax computations. Making an historic claim for unused allowances is not unusual and simply starts the writing down period today, as if the expenditure has just been incurred. If making a claim on older expenditure coincides with current plans for a refurbishment or extension, this can happily assist the cash flow with the tax savings perhaps meeting some or all of the interest cost on new funding for the proposed project.

Summary

Therefore, when planning a new surgery building project, there are good reasons to take early advice on allowances to ensure that a balanced view is formed on the financial differences between renting and owning premises. An early review, even when the build cost is no more than an outline estimate, will be helpful in identifying the scale of the benefit and therefore an idea of the true bottom line cost. To give some idea of the real value of this tax relief, a partner once commented at the completion of his surgery's capital allowances claim, 'This will pay for all of our children's school fees'. Tax relief should not be taxing, and a good capital allowances consultant will help optimise the project's value without impeding progress towards a better building, providing an early review and guidance and then a certification of the allowances for the practice's accountant after the building is completed. ■

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