



## KEY CONTACTS



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## THE CAPITAL ALLOWANCES TOOLKIT

### Introduction

It was recently announced by HM Revenue & Customs (HMRC) that it will be introducing a series of toolkits for tax agents in order to provide guidance on how HMRC views compliance risk and also to set out how tax agents can reduce the likelihood of mistakes occurring in tax returns.

### The benefits

In the opinion of HMRC, using the toolkits will 'reduce the potential risk of an HMRC enquiry or inspection that could result after an error has been made'. In addition, HMRC believe that the toolkits should help tax agents identify the checks that they can carry out to help their clients ensure that they have taken reasonable care in completing their tax return. This should, therefore, reduce the risk of penalties in the event of an error or mistake being made.

### Progress to date

The first toolkit deals with Capital Gains Tax for Trusts and it has been undergoing testing with a small group of tax agents since May 2009. The intention is for a series of toolkits to be developed over the next year or so, which will also be tested before they are widely released. At present the use of the toolkits is voluntary and will be available for use by tax agents for completion of their clients' 2008/09 tax returns.

### The Capital Allowances (plant and machinery) toolkit

Another two toolkits have just recently been released by HMRC for feedback, one of which is the toolkit for claiming Capital Allowances on plant and machinery. The toolkit is focussed on the errors that HMRC have found commonly occur, although it is not meant to be a comprehensive statement of all the risks that may arise when claiming plant and machinery allowances. Reference is made to the Capital Allowances Manual for guidance on any risks that are not covered by the toolkit.

The plant and machinery allowances toolkit has three key elements:

- A checklist covering the key Capital Allowances risks for plant and machinery from HMRC's point of view.
- Explanatory notes, which identify the underlying risks, how to mitigate those risks and a brief outline of the tax treatment.
- Cross references to the relevant guidance available online, so that more detailed information can easily be located if required.



The risks covered by the toolkit broadly fall into the three categories of record keeping, non business use and cars and the new transitional period arising from the changes made to Capital Allowances in the Finance Act 2008.

### The Davis Langdon view

We are completely supportive of any attempt by HMRC to communicate the compliance risks from its perspective, as well as any help and support that will reduce the risk of errors and penalties. In our opinion, the toolkit is well set out and is reasonably comprehensive as far as the identified risks are concerned.



We believe, however, that the toolkit has not identified the main compliance risks that exist for property investors who are usually major claimants of plant and machinery allowances. These risks include valuation and legal entitlement issues. Significant errors can arise in a tax return if the taxpayer has adopted an inappropriate method of valuation, either because legislative restrictions have been overlooked, or because the valuation cannot be agreed with the Valuation Office Agency. Leased plant and machinery involves some highly complex legislation for both fixtures and chattels and some acknowledgement of the risks involved in this area needs to be made within the toolkit.

We have provided feedback to HMRC and look forward to the opportunity of further dialogue as the toolkit is refined. In the meantime, if you would like any further information on the risks that we have identified in respect of Capital Allowances claims, then please refer to the papers on our website dealing with tax risk mitigation.



For further advice concerning any of the issues raised in this briefing, please contact one of our key individuals detailed overpage, or alternatively call our helpline on 0800 526262. Information on other property tax related topics can also be found on our website at <http://bankingtaxfinance.davislangdon.com>.

