

CHANGES TO CAPITAL ALLOWANCES FROM APRIL 2014

The chancellor has confirmed his plans to charge Capital Gains Tax (CGT) on non-residents who sell residential property in the UK and halved the period for private residence relief – this without any prior announcement.

From April 2015, the government will introduce CGT on future gains made by non-residents disposing of UK residential property. A consultation on how to introduce the new CGT charge will be published early this year.

The reduction in the CGT private residence relief final period exemption has halved from 36 months to 18 months, to reduce the incentive for those with multiple homes to exploit the rules, but this will also effect people relocating for work who may not be able to sell their homes quickly, for example.

From April 2014, where commercial property changes hands, claiming capital allowances on fixtures in buildings will become more difficult for owners to claim.

CURRENT POSITION:

Owner- occupiers or investors in commercial property can claim plant and machinery capital allowances for expenditure on fixtures such as electrical power and lighting; heating, ventilation and air conditioning; sanitary ware; fire alarms and so on. For properties purchased from April 2014 there has been a requirement to fix the value attributable to fixtures in the building. This is normally achieved by way of an election.

WHAT IS CHANGING?

Where a property changes hands post March 2014:

- If the seller could have claimed allowances, then they must do so in order to pass the value on to the buyer (known as pooling) They will then normally agree a tax election to establish the capital allowances value to meet the “fixed value requirement”.
- For any fixtures on which the seller could not claim, the buyer must take steps to value the qualifying fixtures within two years of the transaction otherwise the allowances will be lost

PLANNING POINTS

- Claims for allowances on fixtures where no previous claim has been made are based on current replacement value, which can be substantial.

For example, coldwater systems and general electrical wiring incurred prior to the introduction of integral features in 2008.

- Your aims will differ depending on whether you are the vendor or the purchaser, so you should obtain early advice
- Pension funds and charities cannot claim capital allowances but it is in their best interests to ensure that full information is obtained and procedures followed to maximise the onward sale value of the property
- Furnished holiday lets qualify for capital allowances
- A property may be more attractive to a purchaser where the vendor can offer full documentation regarding fixtures and their tax history

Answers to questions on the Commercial Property Standard Enquiries (“CPSE”) are now more important, so care and advice should be taken.

