

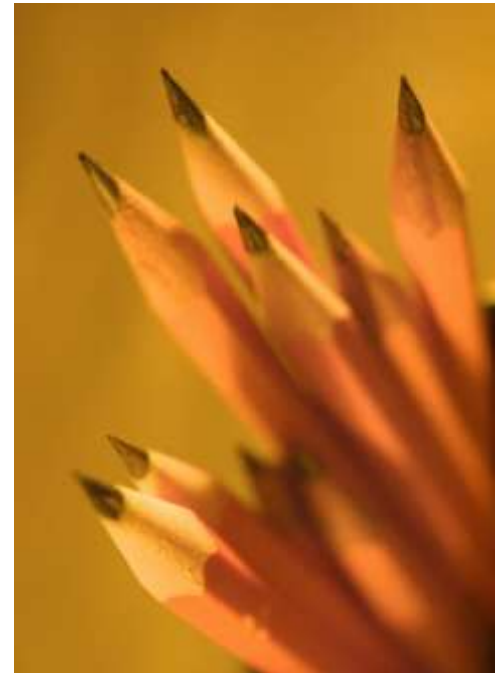
Capital Allowances & Sustainability

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WHAT IS THE TAX RELIEF ISSUE? _____

- A hidden benefit for GPs and Investor/developers
 - Tax reliefs have undergone a lot of change including a rewrite by the Treasury in 2008
 - It is only ten years since statutory changes allowed investors to retain the benefit of allowances in a disposal
 - Expertise is not widespread and accountants tend to take a cautious approach because of complexity
 - Sometimes avoided altogether because of fears of conflict with HMRC

■ An underused incentive

- During the buoyant economic times - development fundamentals were so strong that tax relief became icing on the cake
- Developer/investors (and GPs) were able to build without the need for fiscal incentives – resulting in low levels of awareness of reliefs
- In an austerity market with tighter lending - tax relief can boost viability
- Improves the appeal of funding proposals
- Enhances the return on capital employed

■ Looking beyond the recession

- The public sector is likely to be under sustained financial pressures in the foreseeable future
- Government will have to look hard at its spending choices
- Could it herald a new era a public-private co-operation?
- PCTs likely to become commissioners rather than providers
- As primary care already shows a mix of public and private funding this makes it an obvious area for greater private involvement

- What will the primary care sector look like in ten years time?
 - More GP-led developments?
 - More investor/developers?
 - More larger scale practice premises offering front-line services?
 - Major hospitals focusing only on acute medicine?
 - Vertical integration of services for chronic and preventative medicine
 - But more immediately - what will a change of government mean?

■ Private sector opportunities

- If the public sector is short of funds this may create opportunities for the private sector
- May require flexible thinking and perhaps new business models
- A shortage of public funds may become a stimulus to GPs who may have been hoping for PCT financial support
- GP thinking may shift towards a philosophy that there is no point in waiting in hope – better to get on with it

- Slowdown means increased spending power in construction
 - Probably the best time to build in a over a decade
 - Build tender prices 15-20% down on 2008
 - Low interest rates
 - Falling land values
 - Expanded tax reliefs

■ Tax relief opportunities

- Any taxpayer incurring expenditure on a commercial building as a freeholder or occupier is able to use allowances
- N.B. - a GP surgery is a commercial building
- **Purchase** – the purchase of a building where tax reliefs have not previously been claimed means the buyer can pick them up
- **Refurbishments** – hold high levels of relief – up to 75%
- **New build** – either the investor or the GP owner-occupier can claim

- All GP surgery investment has tax-saving opportunities
 - Mainly Capital Allowances for fixed Plant & Machinery
 - Essentially the systems in the building and non-structural fit-out
 - **Integral Features:**
 - Heating/cooling, hot/cold water, lifts & escalators, electrical systems
 - **General Plant** (business fit-out)
 - Kitchens, toilets, consulting room and office fit-outs, alarms etc

WHAT ARE THEY WORTH? _____

- Tax reliefs mean valuable bottom line savings
 - Typically up to **35%** of the **construction cost** of a new surgery will qualify for Capital Allowances
 - At the 28% corporate tax rate - allowances means almost **10% saving**
 - Savings will be against the GP's personal tax liability or the investment income of the developer/investor
 - If retained by a developer – then building must be transferred from trading stock to asset



■ First year savings

- **Annual Investment Allowance** of £50,000 for expenditure on any Plant & Machinery (other than motor vehicles)
- N.B. This is in addition to the calculated writing down reliefs
- **First Year Allowances** – 40% of the General Pool value is allowable in the first year's claim
- N.B. Introduced for 2009-10 tax year (but likely to be extended)



HOW ALLOWANCES ARE CLAIMED

■ Cashflow illustration

Project of say £1m build cost with 35% qualifying as tax allowable

Year	CA Pool	WDA's	40% tax
1	£350,000	£102,500	£41,000
2	£247,500	£37,125	£14,850
3	£210,375	£31,556	£12,623
4	£178,819	£26,823	£10,729
5	£151,996	£22,799	£9,120
6	£129,197	£19,379	£7,752
7	£109,817	£16,473	£6,589
8	£93,345	£14,002	£5,601
9	£79,343	£11,901	£4,761
10	£67,441	£10,116	£4,046

Total savings over time

£140,000

■ Energy Saving Equipment

- The 2008 changes have moved the tax relief system towards a sustainable approach
- **Enhanced Capital Allowances** offer 100% tax relief for low carbon/energy saving equipment e.g. boilers, air conditioning
- Optimises running costs and helps future-proof the building
- **Adding insulation to existing buildings**
- Improvements to thermal performance can qualify for tax relief e.g. replacing single with double glazing



■ Environmentally Beneficial Allowances

- The 2008 changes also introduced a new category of Capital Allowances
- **Environmentally Beneficial Allowances**
- a) Solar shading (brise soleil)
- b) Ventilated facades
- Treated in the same way as Integral Features
- List has been left open for amendment by the Treasury
- Fiscal incentives for sustainability are under ongoing review

- Building improvements can be very tax-friendly
 - In a refurbishment there is much less expenditure on structure and a higher proportion on systems and fit-out items
 - Therefore typically the tax relief element becomes a more significant proportion of the total
 - **50-75%** of budget being tax relieved is commonplace
 - Tax saving opportunities:
 - Many small repair items can qualify as immediate tax deductions
 - All new Plant & Machinery qualifies
 - All works associated with removing and installing P&M
 - Also insulation and remediation

■ Utilising Capital Allowances

- Tax reliefs assist when planning budgets
- An early review shows the true bottom line cost of a building
- Can enhance the viability of a funding proposal
- Our proposal document helps show keener financial diligence
- Cash flow tax savings help in meeting repayment costs
- Assists bank relationship manager to gain support from credit sanction



■ Avoiding loss of Capital Allowances

- If there is more than one source of funding for a project HMRC will assume the tax relief is split pro-rata
- Thus if PCT has made a capital contribution this can result in some loss of allowances
- It is usually possible to plan around this by ensuring these funds are specifically allocated to non-tax allowable areas
- Can only be addressed at the outset before documentation finalised

- A strong appetite for healthcare projects
 - All of the principal high street banks have healthcare teams
 - Perceived as a low risk sector
 - Now seen as a key area for advancement
 - Pays to shop around but ask the right questions
 - Don't get the numbers wrong!



- How will CRC affect the health service?
 - What is CRC? An emissions reduction scheme based on energy users having to buy “carbon allowances” starting from 2011
 - A regional hospital could have to pay out £750k per annum
 - May prove to be a considerable financial burden for the NHS
 - Could add pressure to use buildings more efficiently
 - May reduce emissions by having fewer more efficient buildings
 - Disseminating services outwards to the primary or independent sectors

- Moving to an energy sensitised era?
 - CRC currently unlikely to have an impact on GP surgeries
 - However it is expected that the threshold will be lowered
 - Also post-recession energy prices are expected to rise
 - Therefore energy efficiency will be high on the agenda
 - Private sector is likely to be more dynamic and creative in its response to these pressures
 - Future exit strategies should anticipate changing market dynamics towards sustainability

■ Flexible space

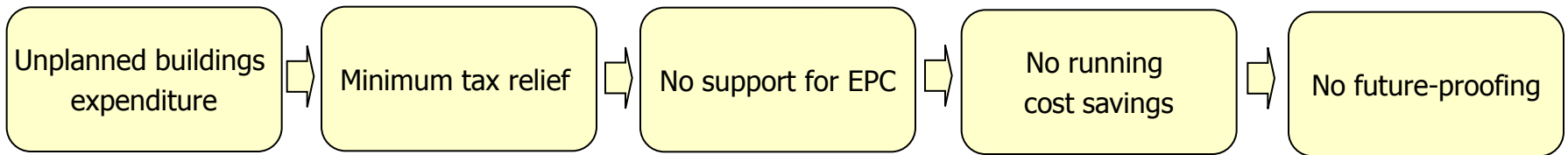
- One lesson we have all learned in the past 10-15 years is not to underestimate the pace of change
- Primary care buildings have tended to follow a fairly rigid format of design requirements
- Reception/waiting/admin/consulting/staff facilities
- Future-proofing the design may need to incorporate the capability to reconfigure internally as requirements change over time
- Flexible layouts are often very tax-friendly

■ Top Tips for GP-driven projects

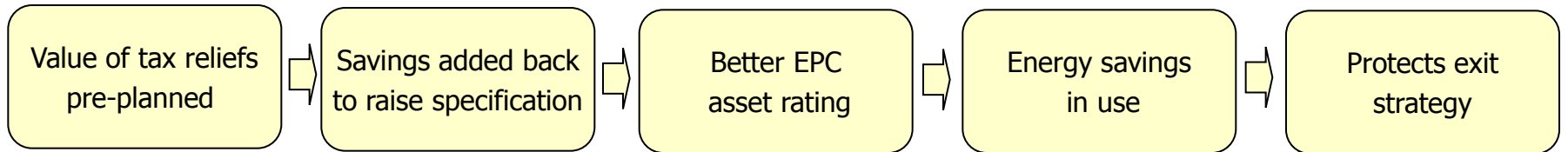
- Get the legal structure right for the partnership and future change
- Have an AISMA accountant with development know-how
- Employ an architect and contractors with track record in surgeries
- Use a specialist healthcare surveyor to negotiate with the PCT
- Don't project manage the build on top of the day job
- Ensure VAT savings are addressed early as well
- Talk to the specialist lenders and work up a detailed cost plan
- Utilise tax reliefs to maximise the budget
- Go for high build quality

■ Reducing the “Sustainability Risk”

A. Buildings expenditure with no CA/EPC planning



B. Buildings expenditure with tax & energy planning



- Advantages of pre-planning tax reliefs
 - Capital Allowances may strengthen the business case for the project
 - Tax savings resulting from allowances will improve the overall investment performance
 - The Enhanced Capital Allowances scheme highlights the opportunity to claim 100% tax relief
 - ECAs also help achieve lower running costs
 - As energy costs rise -better energy performance will help future-proof buildings helping protect investment value
 - EPC ratings are likely to gain recognition with rising energy costs

■ How we work

- We provide an outsource expertise to assist the accountant or FD
- We are not tax advisers – no overlap with the accountant’s role
- Preliminary appraisals of claim opportunities are provided at no cost
- Fees are performance based and mitigated by savings achieved
- Our involvement helps achieve or retain “Low Risk” status with HMRC
- *Any previous building purchase or construction may hold unused reliefs*
- *Historic CA claims can be made even from ten years ago*





Thank you for listening

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Presentation slides and our quarterly newsletter are available upon request