


Newsflash

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Maximising Tax Relief on Capital Expenditure

During the past few months several of our dental clients have undergone a major capital expenditure programme. Examples include acquisitions of a dental practice, relocation to new premises or refurbishment work to existing premises, for example, LDU compliance purposes. Whilst working through the day to day practicalities of the process itself can be stressful, appropriate consideration should also be given to maximising the availability of tax relief on the programme expenditure.

In the first instance, most, if not all, of the expenditure is capital and not revenue in nature and as such will be disclosed within the business balance sheet. Such expenditure will nevertheless generally qualify for tax relief but there are strict rules to be followed.

HM Revenue & Customs (HMRC) legislation states that capital expenditure is not tax deductible against business profits but rather tax relief is provided by way of capital allowances.

Capital allowances are available not only on the more obvious items such as dental equipment but are also available for certain building related capital expenditure. In theory, the tax relief is designed to write off the cost incurred against the taxable income of the business but matters become complex however, as the tax relief is provided at different rates.

Most accountant advisers are comfortable with identification of dental equipment type expenditure although care should be taken to maximise the availability of the annual investment allowance which allows full immediate tax relief on the first tranche of qualifying expenditure. The recent annual limit has been set at £100,000 although please note the limit has been reduced to £25,000 from 6 April 2012. Where the

expenditure does not qualify for full immediate write off, relief is staggered over the ownership of the asset through writing down allowances (WDA's).

What can be overlooked however is the availability of capital allowances against specific types of building improvements and renovation.

Renovation of certain business premises in 'disadvantaged areas' will qualify for 100% initial allowance against the full qualifying capital expenditure. There are however specific conditions attached, one of which states the building must have lain unused for at least one year.

WDA's are also available for expenditure on certain fixtures in a building that is in use for the purpose of your business. HMRC's website provides a full list of fixtures which qualify for these allowances.

Features integral to buildings also qualify for relief although this is an area which may require input from a tax specialist. Tax relief is provided at a reduced rate and covers for example electrical systems, water heating systems and air cooling/ventilation systems. Many dental practitioners fail to claim tax relief on this type of qualifying expenditure.

For those contemplating expenditure within any of the above categories, it is vital to liaise with your accountant at the earliest opportunity. Where the programme of expenditure involves larger scale works, it is also worthwhile including the main building contractor or project architect/manager who can often assist with identification of qualifying expenditure.

If you have already undergone the process and now have concerns about your previously submitted claim for tax relief - all may not be lost. HMRC will allow an amended claim to be submitted subject to statutory time limits.