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CAPITAL ALLOWANCES

developing tax saving opportunities on property expenditure

TAX SAVINGS FOR CARE HOMES

The March Budget brought unexpected good news for some businesses, with big cuts in the headline rates of corporation tax. For most care home owners, though, the tax pressures continue relentlessly to grow. The reducing rates of corporation tax bring no benefit for smaller companies or for unincorporated businesses. Meanwhile, the increase in VAT at the start of the year was followed three months later by a big hike in National Insurance rates, cutting the take-home pay of many employees while increasing the cost to employers.

There is still a glimmer of light for many home owners, though, in the form of unclaimed tax breaks. These tax reductions, in the form of capital allowances, offer huge potential savings for owners who have bought, extended or renovated their care homes. If you are paying either income tax or corporation tax on the profits of running a home, you may be able to wipe out your next tax bill or even generate a substantial tax refund.

The tax savings arise by claiming allowances on “fixtures” that form part of the property. Whenever a home is bought, and whenever money is spent doing it up in some way, opportunities arise to claim tax relief on part of the cost. These claims are often overlooked in practice, because the rules are complex and because many accountants fail to appreciate the potential value or simply misunderstand the way the law works. Accountants have been known to argue, for example, that any capital allowances saving will simply be reversed one day by a higher capital gains tax charge. This is simply wrong.

How much money can be saved? It varies from property to property and depends on many factors. However, the rules have been more generous since April 2008 and a rule of thumb says that the tax breaks can reduce the real acquisition or construction costs by about 10 per cent. It doesn’t even matter if the property was bought many years ago, or was in a poor state of repair when it was acquired, as any claim is normally based on replacement value rather than market value.

The recent Budget contained another surprise announcement: the tax authorities may seek to restrict these claims where property was acquired some years ago. We have no details yet of how any restrictions will apply, or from when, but one theory is that restrictions may apply for claims made from April 2012. For many owners, though, this really may be the last chance to unlock the valuable tax breaks before opportunity disappears forever.

Ian Sutton is a director of Suttons Capital Allowances and can be contacted on 01905 758 024 to discuss this opportunity further.

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