

Maximising Capital Allowances: What is Plant?

There are currently very strong incentives for taxpayers to define certain expenditure as 'plant' in view of the beneficial tax relief that can be achieved from this definition. What are these advantages?

Annual Investment Allowance

Firstly, the Annual Investment Allowance (AIA) allows 100% tax relief on plant purchased of up to £100,000 in the year to 5 April 2012, and up to £25,000 from 6 April 2012.

Installing Plant & Machinery

Secondly, the cost of installing plant and machinery can be added to the cost of the asset itself and capital allowances can be claimed on the combined amount.

Alterations

In B & E Security Systems TC452, alterations to an existing building - which would not normally qualify as plant - were allowed as they were 'incidental to the installation of plant and machinery'.

This case refers to HMRC's Capital Allowances Manual at CA21190 (see www.hmrc.gov.uk/manuals/camanual/CA21190.htm) where the guidance is to 'treat capital expenditure on alterations to an existing building incidental to the installation of plant or machinery as if it were expenditure on that plant or machinery and as if the alterations were part of the plant or machinery'.

This includes alterations to a building that are needed for plant and machinery to function. This point has led to some titanic battles with HMRC over the years.

The tax tribunal's final decision in the five-year battle between J D Wetherspoon (the pub group) and HMRC was positive for the taxpayer and should mean making a claim will be easier in future. In order for a building alteration to qualify as part of the installation costs of plant and machinery, it must remain identifiable as a separate structure from the building.

Environmentally Beneficial Plant and Machinery

Thirdly, it is important to review if expenditure fits within the criteria of 'environmentally beneficial plant and machinery' and so can automatically benefit from a 100% 'Writing Down Allowance' as 'enhanced capital allowances' (ECAs), as set out within the energy technology criteria list which are monitored by the carbon trust and available at www.eca.gov.uk.

Integral Features Allowances

Fourthly, plant could fall into the category of Integral Features Allowances (IFAs) under CAA2001 section 33A(5)(a) as expenditure on 'an electrical system' and thus attract relief at 10% writing down allowances (WDAs) per annum, on a reducing balance basis. This WDA is due to be reduced to 8% from 6 April 2012.

Tax law doesn't provide a definition of plant, so it's been left up to the courts over the years to decide on a case-by-case basis. The decisions in these cases have produced a positive point that plant is any asset that plays a functional role in your business. For example, in *Schofield v Hall* (1975) STC353, a grain silo, together with its attendant machinery, was found to be plant as it performed a function.



Practical Tip

Tax planners should carry out a detailed plant or capital allowance analysis to ensure that all the relevant expenditure achieves maximum tax relief. Buildings should not be ignored for tax planning opportunities, and the installation of plant and machinery should be reviewed for possible allowances as well.

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