



## Structures and Buildings Allowance ('SBA')

In the Budget 2018, the Chancellor announced that the Government will introduce a new Structures and Buildings Allowance ('SBA') for new non-residential structures and buildings.

The Government is consulting on the details of how the SBA will be applied, there are many uncertainties, however below is a brief outline of the proposals as they currently stand:

- Businesses that incur qualifying capital expenditure on structures or buildings used for a qualifying activity (broadly a trade, profession or vocation or property business) will be able to claim the SBA as a deduction from profits at an annual rate of 2% for 50 years.
- Relief will only be available for structures or buildings where a contract for the physical construction works is entered into on or after 29 October 2018.
- Relief will be available for costs relating to new conversions or renovations and subsequent additional capital expenditure. Claims can only be made once the structure or building has been brought into qualifying use. Where an asset is being constructed for a qualifying activity that has not yet commenced, the expenditure will not qualify if incurred more than seven years before that qualifying activity commences.
- Structures and buildings include offices, retail and wholesale premises, walls, bridges, tunnels, factories and warehouses.
- Relief will be limited to the costs of physically constructing the structure or building, including the costs of demolition or land alterations necessary for construction, and direct costs required to bring the asset into existence.
- Relief will not be available for residential dwellings. Where a property is mixed use - for example, between commercial and residential units in a development - then relief will be reduced by apportionment.
- Land costs or rights over land will not be eligible for relief, nor will the costs of obtaining planning permission.
- Where the property is acquired by a new owner, the purchaser can continue to claim the annual allowance of 2% of the original cost. There is no balancing adjustment as a result of the sale.
- Expenditure on integral features and fittings of a structure or building that are currently allowable as expenditure on plant and machinery will continue to qualify for writing down allowances, including the Annual Investment Allowance ('AIA'). SBA expenditure will not qualify for the AIA.
- For Capital Gains Tax purposes, the base cost of the building/structure will be reduced by the total value of the allowances claimed up to the point of disposal.

## Annual Investment Allowance ('AIA')

The Annual Investment Allowance ('AIA') gives a 100% allowance for capital expenditure on plant and machinery up to a specified amount. The AIA limit applies for a 12 month accounting period.

Since 1 January 2016, the AIA limit has been £200,000. From 1 January 2019, the AIA limit is temporarily extended for 2 years to £1,000,000.

Where a business has a chargeable period that spans either the date of increase to £1,000,000 on 1 January 2019, or the date of reversion to £200,000 on 1 January 2021, then transitional rules will apply. Consequently careful consideration must be given to the timing of expenditure during the period including the reversion.

### **Transitional rules examples**

#### **Chargeable periods spanning the date of increase to £1,000,000**

Where a business has a chargeable period from 1 July 2018 to 30 June 2019 the maximum AIA for this period would be £600,000 calculated as follows:

a) the proportion of the period from 1 July 2018 to 31 December 2018, that is,  $6/12 \times £200,000 = £100,000$  plus

b) the proportion of the period from 1 January 2019 to 30 June 2019, that is  $6/12 \times £1,000,000 = £500,000$

$£100,000 + £500,000 = £600,000$ .

However, in relation to (a) (the part period falling before 1 January 2019), no more than a maximum of £200,000 of the company's actual expenditure in that particular part period would be covered by its transitional AIA entitlement (the maximum claimable before the increase).

#### **Chargeable periods spanning the date of reversion to £200,000**

A business with a 12 month chargeable period from 1 April 2020 to 31 March 2021 would calculate its maximum AIA entitlement based on:

a) the proportion of the period from 1 April 2020 to 31 December 2020, that is,  $9/12 \times £1,000,000 = £750,000$  plus

b) the proportion of the period from 1 January 2021 to 31 March 2021, that is  $3/12 \times £200,000 = £50,000$

The business's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) =  $£750,000 + £50,000 = £800,000$ . However, in relation to (b) (the part period falling on or after 1 January 2021) no more than £50,000 of the business's actual expenditure in that part period would be covered by its transitional AIA entitlement.

### **Other changes**

The special rate of writing down allowance will reduce from 8% to 6% from 1 April 2019 for companies and 6 April 2019 for unincorporated businesses. The special rate applies to cars (other than certain low emission cars), long-life assets, integral features and solar panels. For periods of account spanning 1 April 2019 / 6 April 2019, expenditure in the special rate pool will be relieved at a hybrid rate somewhere between 6% and 8%.