HM Revenue
& Customs

Business Premises Renovation Allowances

Who is likely to be affected?

Businesses that incur capital expenditure on bringing back into business use qualifying business premises in disadvantaged areas which have been unused for over a year.

General description of the measure

This measure clarifies the type of expenditure that qualifies for relief under Business Premises Renovation Allowance (BPRA).

Policy objective

This measure ensures that only the actual direct costs of converting or renovating an unused business premises, to bring it back into business use (i.e. the cost of construction and related professional services), are relieved under BPRA.

Background to the measure

On 18 July 2013, the Government invited comments on the Technical Note, *Business Premises Renovation Allowances (BPRA)* and draft legislation was published for consultation in December 2013.

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 10 December 2013.

Detailed proposal

Operative date

The changes will have effect for qualifying expenditure incurred on and after 1 April 2014 for businesses within the charge to corporation tax, and 6 April 2014 for businesses within the charge to income tax.

Current law

Capital allowances enable the costs of capital assets to be written off against taxable profits. Different classes of assets qualify for allowances at different rates. Under part 3A of the Capital Allowances Act 2001 (CAA 2001), the BPRA legislation provides a 100 per cent initial allowance for capital expenditure incurred on the renovation or conversion of business properties that have been unused for at least a year in disadvantaged areas of the UK.

Section 360B and 360C CAA 2001 defines the meaning of qualifying expenditure and requires that a building must have been unused for a year before expenditure qualifies for relief.

Section 360M prevents a balancing adjustment being made if certain balancing events take place more than seven years after the time when the qualifying building was first used or was suitable for letting.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Part 3A of CAA 2001 to clarify the scope of the expenditure that qualifies for BPRA. This will mean that relief is only available for the actual costs of construction and building work, and for certain specified activities such as architectural and surveying services. The legislation will also provide that additional associated but unspecified activities (such as project management services) qualify for relief, limited to five per cent of the actual costs as newly specified.

In addition:

- A rule will be introduced preventing claims to BPRA being made if another form of State aid has or will be received. Following consultation, the proposal to limit qualifying plant and machinery to integral features has been widened to cover additional listed items.
- The rule preventing expenditure incurred on buildings qualifying for relief before they have been unused for a year will be clarified.
- Where expenditure is paid in advance and tax relief claimed immediately, the works to which that expenditure relates must be completed within 36 months or that relief will be withdrawn.
- The period in which balancing adjustments must be made if certain events occur will be reduced from seven to five years.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer.

This measure supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impacts. The changes simply clarify the expenditure qualifying for BPRA, to target the relief more effectively. In particular, they will deter transactions that attempt to exploit BPRA inappropriately, or that run the risk of breaching State aid rules. However, there is a risk that the changes may deter some future BPRA projects.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will not have a significant impact on individuals and households as the changes simply clarify the business expenditure qualifying for BPRA, to target the relief more effectively.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This measure simply clarifies the business expenditure qualifying for BPRA, to target the relief more effectively, and is not therefore expected to have an impact on any specified group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The changes will require businesses and civil society organisations to clearly identify expenditure that qualifies for BPRA, and that which does not. In order to make a valid claim for BPRA, the business already has to carry out such an exercise; the changes simply require more care to be taken. Although this may increase a business’s administration costs, claims will be easier to process and agree with HM Revenue & Customs (HMRC). Around 1,700 BPRA claims were made in 2011-12.</td></tr>
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	There may also be some impact if businesses receive grant funding that is a State aid towards the costs of BPRA projects. In such cases, any BPRA claimed will have to be repaid. This will be a negligible one off cost. The change is required to ensure compliance with State aid rules that BPRA has been designed to meet. It is difficult to establish how many businesses might be impacted because grants are funded on a case-by-case basis, but it is considered that the impact will be limited as not every potential BPRA project qualifies for such grant. The cumulative effect of all the changes being suggested will result in an increase in administration costs for businesses, but these are expected to be negligible.
Operational impact (£m) (HMRC or other)	HMRC prioritises compliance activity according to risk and it is expected that any legislation resulting from this review will reduce the compliance risk in this area.
Other impacts	Small and micro business assessment: this measure applies to all sizes of business. Should a small business decide to make use of BPRA it will be subject to the same rules as any other business. The impact on small and micro businesses is expected to be negligible. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The take-up and annual cost of BPRA is regularly monitored through boxes on tax returns and annual State aid reports to the European Commission.

Further advice

If you have any questions about this change, please contact Nick Williams on 03000 585660 (email: nicholas.williams@hmrc.gsi.gov.uk).