



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 will clarify 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)*.

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 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. That legislation will provide that only the actual costs of construction and building work, certain specified activities (e.g. architectural and surveying services) and additional associated but unspecified activities (such as project management services) qualify for relief, up to a limit of 5 per cent of the actual costs.

In addition:

- 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 immediately claimed, the works to which that expenditure relates must be completed within 24 months to prevent some, or all, of that relief being withdrawn; and
- the period in which balancing adjustments must be made if certain events occur will be reduced from seven to five years.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. This measure supports the Exchequer in its commitment to protect revenue.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This measure will not have a significant impact on individuals and households as the changes relate only to persons seeking to exploit BPRA.					
Equalities impacts	This measure only applies to those persons seeking to exploit BPRA and is not therefore expected to have an impact on any equality group.					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses or civil society organisations where claims are legitimate, as this measure confirms 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, should be relieved under BPRA.</p> <p>The impact will be on those businesses or civil society organisations who make BPRA claims which include elements of non-qualifying indirect expenditure such as the costs of raising finance or attracting tenants. It is possible that some BPRA schemes may no longer be considered viable as a result of this clarification.</p>					
Operational impact (£m) (HMRC or other)	It is expected that the compliance burden on HM Revenue & Customs (HMRC) is likely to be reduced by any new legislation that is introduced as a result of this measure. In this event, it is anticipated that HMRC's operational costs will be correspondingly reduced.					
Other impacts	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).

1 Business premises renovation allowances

- (1) Section 360B of CAA 2001 (business premises renovation allowances: meaning of “qualifying expenditure”) is amended in accordance with subsections (2) to (5).
- (2) For subsection (1) substitute –
 - “(1) In this Part “qualifying expenditure” means capital expenditure incurred before the expiry date –
 - (a) in respect of which conditions A and B are met, and
 - (b) which is not excluded by subsection (3), (3A) or (3C).”
- (3) After subsection (2) insert –
 - “(2A) Condition A is that the expenditure is incurred on –
 - (a) the conversion of a qualifying building into qualifying business premises,
 - (b) the renovation of a qualifying building if it is or will be qualifying business premises, or
 - (c) repairs to a qualifying building or, where the building is part of a building, to the building of which the qualifying building forms part, to the extent that the repairs are incidental to expenditure within paragraph (a) or (b).
 - (2B) Condition B is that the expenditure is incurred on –
 - (a) building works,
 - (b) architectural or design services,
 - (c) surveying or engineering services,
 - (d) planning applications, or
 - (e) statutory fees or statutory permissions.
 - (2C) The expenditure does not fail to meet Condition B by reason only that some of it was incurred on matters not within subsection (2B), if the amount incurred on such matters does not exceed 5% of so much of the expenditure as is incurred on building works.”
- (4) In subsection (3) –
 - (a) for “not qualifying expenditure” substitute “excluded”, and
 - (b) in paragraph (d), for “a fixture as defined by section 173(1)” substitute “an integral feature (within the meaning of section 33A(5)) or part of such a feature”.
- (5) After that subsection insert –
 - “(3A) Expenditure is excluded if, and to the extent that, it exceeds the market value amount for the works, services or other matters to which it relates.
 - (3B) “The market value amount” means the amount of expenditure which it would have been normal and reasonable to incur on the works, services or other matters –
 - (a) in the market conditions prevailing when the expenditure was incurred, and

- (b) assuming the transaction as a result of which the expenditure was incurred was between persons dealing with each other at arm's length in the open market.
- (3C) Expenditure is excluded if the qualifying building was used at any time during the period of 12 months ending with the day on which the expenditure is incurred.”
- (6) After that section insert –
 - “360BA Expenditure not treated as qualifying expenditure if delay in carrying out works etc**
 - (1) This section applies where –
 - (a) (ignoring this section) qualifying expenditure is incurred on works, services or other matters in a chargeable period, and
 - (b) those works, services or other matters are not completed or provided before the end of the period of 24 months beginning with the date the expenditure was incurred.
 - (2) The expenditure is to be treated for the purposes of this Part as never having been incurred (unless and until subsection (6) applies).
 - (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to subsection (2).
 - (4) If a person who has made a tax return becomes aware that, after making it, anything in it has become incorrect because of the operation of this section, the person must give notice to an officer of Revenue and Customs specifying how the return needs to be amended.
 - (5) The notice must be given within 3 months beginning with the day on which the person first became aware that anything in the return had become incorrect because of the operation of this section.
 - (6) If, at any time after the end of the period mentioned in subsection (1)(b), those works, services or other matters are completed or provided, the expenditure is to be treated for the purposes of this Part as incurred at that time.”
- (7) In section 360M of that Act (when balancing adjustments are made), in subsection (4) for “7” substitute “5”.
- (8) The amendments made by this section have effect –
 - (a) for income tax purposes, for expenditure incurred on or after 6 April 2014, and
 - (b) for corporation tax purposes, for expenditure incurred on or after 1 April 2014.

EXPLANATORY NOTE

BUSINESS PREMISES RENOVATION ALLOWANCES

SUMMARY

1. Clause [x] provides for amendments to business premises renovation allowances (BPRA) in order to clarify the expenditure that qualifies for relief. It also reduces the balancing adjustment period from seven to five years.

DETAILS OF THE CLAUSE

2. Subsection 1 provides for changes to be made to Section 360B of the Capital Allowances Act 2001 (CAA). The changes are specified in subsections 2 to 5.
3. Subsection 2 substitutes a new subsection (1). This substitution provides that qualifying expenditure incurred after the commencement date and before 1 April 2017 for corporation tax purposes and 6 April 2017 for income tax purposes must satisfy conditions A and B and not be excluded by subsections (3), (3A) or (3C).
4. Subsection 3 inserts new subsections (2A) to (2C). These require that qualifying expenditure must satisfy Conditions A and B.
5. New subsection (2A) defines expenditure for the purposes of Condition A and is modelled on the existing section 360B(1) CAA with the deletion of “in connection with”.
6. New Subsection (2B) defines expenditure for the purposes of Condition B as:
 - Building works, which applies to the cost of labour and materials.
 - Architectural and design services, which includes the detailed design of the building and its future layout.
 - Surveying or engineering services, which includes services to check the structure of the building or specialists checking for asbestos.
 - Planning applications, which cover the costs of obtaining essential planning permissions to alter, for example, a listed building, including legal fees.
 - Statutory fees and statutory permissions to include the costs of building regulation fees; obtaining listed building consent; closing roads in order that certain works can be carried out or the costs of obtaining necessary statutory permissions from utilities.
7. New subsection (2C) provides that certain expenditure that meets Condition A but does not fall within Condition B, and is not specifically excluded, may still be qualifying expenditure but is limited to 5 per cent of the expenditure incurred on the building works. This encompasses expenditure incurred on activities in respect of the conversion or

renovation of the qualifying building but not specifically listed in Condition B, such as project management services.

8. Subsection 4 makes various amendments to current subsection (3).
9. Subsection 5 inserts new subsections (3A) to (3C).
10. New subsections (3A) and (3B) provide that expenditure is excluded to the extent that expenditure on the works, services or other matters to which it relates exceeds the normal market value amount.
11. New subsection (3C) provides that expenditure does not qualify for relief before the building has been unused for a period of 12 months.
12. Subsection 6 inserts a new section 360BA. New subsections (1), (2) and (6) provide that where qualifying expenditure has been incurred, the works, services or other matters to which that expenditure relates must be completed within 24 months. If after 24 months those works, services or other matters have not been completed, then the expenditure for those not completed will be treated as never having been incurred. Where those works are eventually provided the expenditure will be treated as being incurred at that time.
13. For example, if a return containing a claim for £100,000 of qualifying expenditure was made and after 24 months only works or services relating to £90,000 has been carried out, then in respect of the remaining £10,000 of expenditure the relevant tax assessments will need to be revised.
14. New subsections (3), (4) and (5) provide for the making of assessments, or amendments to assessments, that may be necessary to give effect to this requirement and provide that a person who has made a tax return, and later becomes aware that it is incorrect must give notice of the required amendments to HM Revenue & Customs (HMRC) within three months of the day on which the person became aware that the return had become incorrect.
15. Subsection 7 amends section 360M(4). This provides that where qualifying expenditure has been incurred on a qualifying building, and a balancing event occurs within seven years a balancing adjustment must be made. This subsection reduces that period to five years.
16. Subsection 8 provides that these amendments take effect for expenditure incurred from 1 April 2014 for the purposes of corporation tax and 6 April 2014 for the purposes of income tax.

BACKGROUND NOTE

17. Capital allowances allow the cost of capital assets to be written off against taxable profits. Not all expenditure qualifies for allowances.

18. BPPRA aims to bring long-term vacant business properties in disadvantaged areas back into business use. It does this by providing a 100 per cent capital allowance for the capital costs incurred of renovating, converting or repairing certain business properties that have been unused for at least a year in assisted areas of the United Kingdom. A writing down allowance of 25 per cent on the straight line basis is also available, where the 100 per cent initial allowance is not claimed, or not claimed in full. It therefore offers both an enhanced rate of allowance and a relief for otherwise irrecoverable expenditure.

19. Following an increase in DOTAS (Disclosure of Tax Avoidance Schemes) disclosures, involving BPPRA, which appeared to contain features aimed at exploiting the relief in ways that Parliament had not intended, a written ministerial statement by the Exchequer Secretary to the Treasury was published on 18 July 2013, authorising HMRC to conduct a technical review of the BPPRA legislation, with a view to making its policy purpose clearer, more certain in its application and at the same time reducing the risk of exploitation. Following the publication of that statement, HMRC published a Technical Note inviting comments on legislative proposals, with a view to introducing new legislation in 2014.

20. Following the responses to the Technical Note this clause clarifies the expenditure eligible for relief. It also requires that where expenditure is incurred for works and services to be carried out over a period of time, or in the future, those works and services must be complete within 24 months to prevent some, or all, the relief given in respect of the expenditure being withdrawn.

21. The legislation presently 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 suitable for letting. This period will be reduced to five years.

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