

Capital Allowances - Flat Conversion Allowances: Repeal of Relief

Who is likely to be affected?

Those businesses that have renovated or converted vacant or under-used space above shops and other commercial premises to provide flats for rent, or that are planning to renovate or convert such space.

General description of the measure

Flat conversion allowances (FCAs) were introduced in 2001. The scheme was designed to increase the availability of low cost rental accommodation in urban areas by providing 100 per cent capital allowances for the conversion of empty or under-used space above shops and other commercial premises to residential use. The flats must be available for short term letting. FCAs are not available if the flats are of high value or the property in which they are situated was built after 1980. Take-up of the scheme has been much lower than anticipated, suggesting that the relief has not been successful in achieving its objective and is now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

This relief will be withdrawn for expenditure incurred on or after 1 April 2013 for businesses within the charge to corporation tax, and on or after 6 April 2013 for businesses within the charge to income tax.

The entitlement to claim writing down allowance on any outstanding residue of qualifying expenditure will also cease with effect from the same dates.

Current law

FCAs, which were introduced in 2001, are available under part 4A of the Capital Allowances Act 2001. The relief provides a 100 per cent initial allowance to encourage the conversion or development of empty or under-used space above shops and other commercial premises into residential property for letting.

Where the full allowance is not claimed, the relief provides that any residue of qualifying expenditure is written off at a rate of 25 per cent of the value of the original qualifying expenditure per annum on a straight-line basis.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal FCAs in respect of qualifying expenditure incurred on or after 1 April 2013 for businesses within the charge to corporation tax, and on or after 6 April 2013 for businesses within the charge to income tax.

The entitlement to claim writing down allowances on any residual expenditure will also be withdrawn from that date. However, where the chargeable period of a business falls in more than one financial or tax year, the writing down allowance should be apportioned on a time basis between the financial or tax years in order to determine the amount of the writing down allowance that may be set-off against profits. For example:

- A company has a 12 month chargeable period of 1 January 2013 to 31 December 2013 (365 days);
- It originally incurred £10,000 of FCA qualifying expenditure and has residual FCA expenditure of £5,000;
- For the period 1 January 2013 to 31 December 2013, a maximum writing down allowance of £2,500 (£10,000 x25 per cent) could have been claimed;
- As a result of the repeal, only the period 1 January 2013 to 31 March 2013 (90 days) qualifies for FCA relief;
- Therefore for its 2013 chargeable period the company would be entitled to a maximum writing down allowance of: $90/365 \times £2,500 = £616.44$.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This change is not expected to have any significant economic impacts on the rented accommodation sector as very few businesses have chosen to claim the allowance.				
Impact on individuals and households	Due to the low uptake of the relief, the impact on individuals and households is considered to be minimal.				

Equalities impacts	The low uptake of the scheme means that there is not expected to be any significant impacts on the supply of rental accommodation to people with protected characteristics.
Impact on business including civil society organisations	<p>One of the FCAs' target groups includes small businesses who own their business premises, e.g. shops, and have unused domestic accommodation over it. It is difficult to estimate how many businesses might be affected by the relief's withdrawal, but as evidence suggests that take-up of the relief has been low (in 2009/10 only around 100 companies made claims) it is expected that any impact will be small.</p> <p>The abolition of FCAs may also impact on some property investment businesses. But again based on the low take-up this is likely to be small.</p> <p>The decision to withdraw the entitlement for writing down allowances in respect of residual expenditure for those chargeable periods starting on or after the operative dates could also have impacts. It is difficult to estimate the number of businesses affected, but based on take up and the assumption that the majority of businesses will have claimed the full 100 per cent initial allowances, the number is likely to be small. Those affected could include both unincorporated and incorporated businesses, and businesses large and small.</p> <p>A 2006 evaluation found that 69 per cent of FCA claims were made by an accountant. Consequently abolition would reduce taxpayers' need for an accountant or agents to calculate the entitlement to FCA with the consequent reduction in administration costs. Overall this measure is expected to have a negligible impact on businesses' administrative burdens.</p> <p>As these changes only apply to business expenditure the changes will have little or no impact on charities who do not generally pay tax on business profits.</p>
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.
Other impacts	<u>Small firms impact test:</u> While the relief is available to small firms, the actual take up is low. The consultation did not identify anything to suggest that its abolition would have a significant impact on small firms.

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an under-used relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Nick Williams on 020 7147 2541 (email: nicholas.williams@hmrc.gsi.gov.uk).

Capital Allowances - Safety at Sports Grounds: Repeal of Relief

Who is likely to be affected?

Businesses intending to carry out required safety precautions at sports grounds.

General description of the measure

Capital allowances are not generally available for capital expenditure incurred on the fabric of buildings. The safety at sports grounds reliefs were introduced between 1975 and 1988, specifically to reduce some of the capital costs sports ground operators were incurring as a result of having to upgrade their existing sports grounds to comply with revised safety standards, and which otherwise would not have qualified for capital allowances. The reliefs are no longer required as the Government considers that the stock of existing sports grounds have been brought up to the standards appropriate for their size and use, and the reliefs are therefore now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal these reliefs. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

These reliefs will be withdrawn in relation to capital expenditure incurred on or after 1 April 2013 for businesses within the charge to corporation tax and on or after 6 April 2013 for businesses within the charge to income tax.

Current law

Plant and machinery is not specifically defined in the Capital Allowances Act 2001 (CAA). However, Chapter 3 of Part 2 provides that capital expenditure on buildings, or structures is not eligible for plant and machinery allowances (PMA), subject to a number of exceptions. Sections 30 to 32 of Part 2 of CAA set out three of these exceptions in respect of making various safety improvements carried out at sports grounds.

Section 30 applies to safety expenditure incurred at sports grounds designated under the Safety at Sports Grounds Act 1975. PMAs are only available if a person carrying on a qualifying activity takes required safety precautions at a designated sports ground for the purposes of the Safety of Sports Grounds Act 1975. Section 31 is similar but it applies to safety expenditure incurred under the Fire Safety and Safety of Places of Sport Act 1987. Section 32 covers safety expenditure at grounds which are not specifically covered by the Safety at Sports Grounds Act 1975 but are capable of designation.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal the above provisions.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This change is not expected to have any significant economic impacts as the majority of required safety improvements works at existing sports grounds have now been completed. There will be no impact for new sports grounds as they do not qualify for the reliefs.				
Impact on individuals and households	This measure is not expected to impact on individuals or households, as all sports ground operators will have to continue complying with all relevant safety legislation.				
Equalities impacts	There is expected to be no impact on people with protected characteristics as these reliefs apply to general safety. They do not apply to improvements that may be required for other purposes, e.g. under disabilities legislation.				
Impact on business including civil society organisations	<p>The repeal will impact on sports grounds operators, and apply to most stadia based sports. The main impact of repeal will be on those operators whose existing ground becomes subject to additional safety requirements.</p> <p>There will be no impact on the construction of new sports grounds, or the general refurbishment of existing sports grounds as the relief is not available for such expenditure. Overall this measure is expected to have a negligible impact on businesses' administrative burdens.</p> <p>As these changes only apply to business expenditure the changes will have little or no impact on charities who do not generally pay tax on business profits.</p>				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms: this relief applies to all businesses, including small firms, but will in practice only affect those businesses that operate existing sports grounds that need upgrading to meet safety standards, and it is not considered that any such businesses will be "small" within the meaning of the small firms impact test.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Nick Williams on 020 7147 2541 (email: nicholas.williams@hmrc.gsi.gov.uk).

SCHEDULE 1

OTS RELIEFS

PART 1

CAPITAL ALLOWANCES

Safety at sports grounds

- 1 The following provisions of Part 2 of CAA 2001 (plant and machinery allowances) are repealed –
 - (a) section 30 (safety at designated sports grounds),
 - (b) section 31 (safety at regulated stands at sports grounds), and
 - (c) section 32 (safety at other sports grounds).
- 2 (1) In consequence of the provision made by paragraph 1, CAA 2001 is amended as follows.
 - (2) In section 23(2) (expenditure unaffected by ss.21 and 22), omit –
 - (a) the entry relating to section 30,
 - (b) the entry relating to section 31, and
 - (c) the entry relating to section 32.
 - (3) In section 27 (application of Part 2 to thermal insulation, safety measures, etc) –
 - (a) in subsection (1)(a), for “any of sections 28 to 33” substitute “section 28 or 33”, and
 - (b) in the heading, for “, **safety measures, etc**” substitute “**and personal security**”,
and, in the italic heading before that section, for “, *safety measures, etc*” substitute “*and personal security*”.
- 3 The amendments made by paragraphs 1 and 2 have effect –
 - (a) for corporation tax purposes, in relation to expenditure incurred on or after 1 April 2013, and
 - (b) for income tax purposes, in relation to expenditure incurred on or after 6 April 2013.

Flat conversion allowances

- 4 Part 4A of CAA 2001 (flat conversion allowances) does not apply –
 - (a) for corporation tax purposes, in relation to expenditure incurred on or after 1 April 2013, and
 - (b) for income tax purposes, in relation to expenditure incurred on or after 6 April 2013.
- 5 Part 4A of CAA 2001 is repealed.
- 6 (1) In consequence of the provision made by paragraph 5, CAA 2001 is amended as follows.
 - (2) In section 1(2) (allowances for which Act provides), omit paragraph (ca).
 - (3) In section 2(3) (giving effect to capital allowances), omit the entry relating to section 393T.

- (4) In section 567(1) (sales treated as being for alternative amount: introductory), omit “4A”.
 - (5) In section 570(1) (elections under s.569: supplementary), omit “or 4A”.
 - (6) In section 570A(1) (avoidance affecting proceeds of balancing event), omit “4A”.
 - (7) In section 573(1) (transfers treated as sales), omit “, 4A”.
 - (8) In Part 2 of Schedule 1 (list of defined expressions), omit the entries for the following defined expressions –
 - “balancing adjustment (in Part 4A)”,
 - “balancing event (in Part 4A)”,
 - “dwelling (in Part 4A)”,
 - “flat (in Part 4A)”,
 - “lease and related expressions (in Part 4A)”,
 - “proceeds from a balancing event (in Part 4A)”,
 - “qualifying building (in Part 4A)”,
 - “qualifying flat (in Part 4A)”,
 - “relevant interest (in Part 4A)”, and
 - “residue of qualifying expenditure (in Part 4A)”.
 - (9) In Part 2 of that Schedule, in the entry for “sale, transfers under Parts 3A, 4A and 10 treated as”, omit “, 4A”.
- 7 In consequence of the provision made by paragraphs 5 and 6, the following provisions are repealed –
- (a) in FA 2001, section 67 and Schedule 19,
 - (b) in ITTOIA 2005, paragraphs 559 and 560 of Schedule 1, and
 - (c) in CTA 2009, paragraphs 505 to 507 of Schedule 1.
- 8 (1) The amendments made by paragraphs 5 to 7 have effect –
- (a) for corporation tax purposes, in relation to chargeable periods beginning on or after 1 April 2013, and
 - (b) for income tax purposes, in relation to chargeable periods beginning on or after 6 April 2013.
- (2) But see also –
- (a) paragraph 9 (which deals with the case of a company’s chargeable period for corporation tax purposes straddling 1 April 2013), and
 - (b) paragraph 10 (which saves the continued operation of certain provisions).
- 9 (1) This paragraph applies if, for corporation tax purposes, the chargeable period of a company begins before, and ends on or after, 1 April 2013.
- (2) The company is entitled only to the relevant proportion of any writing-down allowance for that chargeable period to which it would, but for this paragraph, have been entitled under section 393J of CAA 2001.
- (3) The relevant proportion is –

$$\frac{A}{B}$$

where –

A is the number of days in the chargeable period falling before 1 April 2013, and

B is the number of days in the chargeable period.

- 10 (1) Nothing in paragraph 5 or 8(1) is to affect the operation of –
 - (a) section 393I of CAA 2001 (withdrawal of allowance if flat not qualifying flat or if relevant interest sold before flat first let), or
 - (b) sections 393M to 393P of CAA 2001 (balancing adjustments),for chargeable periods beginning on or after the relevant date in relation to expenditure incurred before that date.
- (2) The relevant date is –
 - (a) for corporation tax purposes, 1 April 2013, and
 - (b) for income tax purposes, 6 April 2013.

EXPLANATORY NOTE

CAPITAL ALLOWANCES OTS RELIEFS

SUMMARY

1. This Schedule simplifies the tax code by repealing redundant and underused legislation relating to expenditure on safety at sports grounds and flat conversions.

DETAILS OF THE CLAUSE

2. This Schedule introduces the amendments to the Capital Allowances Act 2001 (CAA 2001).

Safety at sports grounds

3. Paragraph (1) repeals sections 30 to 32 of CAA 2001 (the sections which specifically enacted the safety at sports grounds reliefs) and makes consequential changes.
4. Paragraph (2) makes consequential amendments to sections 23(2) and 27 of CAA 2001.
5. Paragraph (3) provides that the repeal has effect in respect of expenditure incurred on or after 1 April 2013 for corporation tax purposes and on or after 6 April 2013 for income tax purposes.

Flat conversion allowances

6. Paragraph (4) provides that Part 4A of CAA 2001 (the section which specifically enacted flat conversion allowances) does not apply in respect of expenditure incurred on or after 1 April 2013 for corporation tax purposes and on or after 6 April 2013 for income tax purposes.
7. Paragraph (5) repeals Part 4A of CAA 2001.
8. Paragraphs (6) and (7) make a number of consequential amendments.
9. Paragraph (8)(1) provides that the amendments at paragraphs (5) to (7) have effect on or after 1 April 2013 for Corporation Tax purposes and on or after 6 April 2013 for income tax purposes. But this is subject to paragraphs (9) and (10).

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10. Paragraph (9) determines how a company's entitlement to writing-down allowances (WDAs), for the purposes of s393J CAA, should be calculated where its chargeable period spans 1 April 2013.
11. It requires that the WDA be calculated as normal for the chargeable period, and time apportioned between the chargeable period falling before and after 1 April 2013 in accordance with this method:

$$\frac{A}{B}$$

Where A is the number of days in the chargeable period falling before 1 April 2013 and B is the number of days in the chargeable period.

12. Paragraph (10) is a saving provision. It provides that paragraphs 5 and 8(1) do not affect the operation of sections 393I, 393M to 393P of CAA, in respect of expenditure incurred before 1 April 2013 for Corporation tax purposes and 6 April 2013 for Income Tax purposes.

BACKGROUND NOTE

Safety at sports grounds

13. Capital allowances are not generally available for capital expenditure incurred on the fabric of buildings. Sections 30 to 32 CAA, were introduced between 1975 and 1988, specifically to mitigate some of the capital costs sports ground operators were incurring as a result of having to upgrade existing sports grounds to comply with revised safety standards, and which otherwise would not have qualified for capital allowances.
14. Section 30 applies to safety expenditure incurred at sports grounds designated under the Safety at Sports Grounds Act 1975. Capital allowances are only available if a person carrying on a qualifying activity takes required safety precautions at a designated sports ground for the purposes of the Safety of Sports Grounds Act 1975. Section 31 is similar but it applies to safety expenditure incurred under the Fire Safety and Safety of Places of Sport Act 1987. Section 32 covers safety expenditure at grounds not specifically covered by the Safety at Sports Grounds Act 1975 but are capable of designation.
15. As the majority of existing stadia and stands have now had the necessary safety improvements made, the reliefs are considered to have met their purpose. Consequently they are being withdrawn in respect of expenditure incurred on or after 1 April 2013 for businesses within the charge to Corporation Tax and on or after 6 April 2013 for businesses within the charge to Income Tax.

Flat conversion allowances

FINANCE BILL

16. Capital allowances are not generally available for capital expenditure incurred on the fabric of, or plant and machinery, installed in, dwellings.
17. Part 4A CAA Flat Conversion Allowances (FCA) provides a 100 per cent initial allowance to encourage the conversion, renovation or repair of empty or under-used space above shops and other commercial premises into dwellings available for letting. FCA was intended to increase housing supply and reduce the need for new housing developments on green field sites. However, evidence suggests that take-up is much lower than had been anticipated, suggesting that the relief has been unsuccessful in achieving its policy objectives.
18. The relatively marginal role of the scheme does not justify continuing to operate the regime and abolition consequently supports the Government's objective of simplifying the tax system and eliminating complex or under used reliefs. Consequently this relief is being withdrawn in respect of expenditure incurred on or after 1 April 2013 for businesses within the charge to Corporation Tax and on or after 6 April 2013 for businesses within the charge to Income Tax.
19. The entitlement to claim writing-down allowance on any outstanding residue of qualifying expenditure will also be withdrawn from these dates. However, where the chargeable period of a company falls in more than one financial or tax year, a rule requires that the writing down allowance (WDA) should be apportioned on a time basis between the financial or tax years in order to determine the amount of the writing-down allowance that may be set-off against profits.
20. For example:
 - (i) A company has a 12 month chargeable period of 1 January 2013 to 31 December 2013 (365 days).
 - (ii) It incurred £10,000 of FCA qualifying expenditure and has residual FCA expenditure of £5,000.
 - (iii) For the period 1 January 2013 to 31 December 2013, a maximum writing down allowance of £2,500 ($£10,000 \times 25\%$) could have been claimed.
 - (iv) As a result of abolition, only the period 1 January 2013 to 31 March 2013 (90 days) qualifies for FCA relief.
 - (v) Therefore for its 2013 chargeable period the company would be entitled to a maximum WDA of: $90/365 \times £2,500 = £616.44$.

FINANCE BILL

21. Abolition also preserves a potential balancing charge in the event of a balancing event arising within seven years of first use.
22. The Office of Tax Simplification was commissioned by the Chancellor to undertake a review of the reliefs and allowances available in the tax system. Following their review, the Government announced at Budget 2011 that it would repeal seven reliefs immediately and abolish a further 36 reliefs, subject to a period of consultation over the summer. The Government response to the consultation, published on 6 December 2011, confirmed the abolition of these reliefs.
23. If you have any questions about this change, or comments on the legislation, please contact Nick Williams on 020 7147 2541 (email: nicholas.williams@hmrc.gsi.gov.uk).