



Industrial Buildings Allowance

Capital allowances for the construction costs of industrial buildings or structures fall under several different headings, but collectively they are known as industrial buildings allowances (IBAs). They are normally available to the building owner, but there are certain circumstances where a tenant may claim for additional capital expenditure on an existing qualifying building.

Buildings in use for a qualifying trade

Qualifying trades include among others the manufacturing or processing of goods or materials, the storage of goods or materials which are to be used in the manufacture of other goods or materials, some agricultural contracting activities, catching fish or shell fish and mineral extraction. There is no statutory definition and so various processes have been tested in the courts, sometimes with surprising results. For instance breeding rodents for experimental purposes qualifies, but accelerating the growth of tropical fish in heated tanks does not! Landlords may therefore need to carry out considerable detailed research to establish whether it is possible that their tenants are carrying out qualifying trades.

This type of IBA is given as an annual writing-down allowance of 1% of the original construction cost (i.e. excluding the cost of the land), starting in the period when the building is first brought into use. The allowances are being phased out and will cease in 2011.

Qualifying Hotels and Sports Pavilions

The qualification is more clearly defined, but the relief works in the same way as for industrial buildings, outlined above.

Commercial Buildings in Enterprise Zones

Where an area has been designated as an Enterprise Zone, allowances on the construction costs of commercial buildings are much more generous. An initial allowance of 100% is available on *any* buildings other than dwelling houses. Even if part of the building is used as a dwelling, the whole expenditure still qualifies so long as the expenditure on that part does not exceed 25% of the total building cost. A lower amount than the full 100% may be claimed, in which case the residual expenditure qualifies for a writing down allowance. These allowances will be withdrawn in 2011.

This is quite a complex area of legislation and you would be well advised to seek professional assistance.

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