COMING YOUR WAY? THE NEW STEALTH TAX

The government is proposing to shake up the system of tax relief on fixtures and fittings. Pub owners should make their voices heard before it's too late

By Martin Wilson

HM REVENUE & Customs has published its proposals for changes to the way in which publicans and others will obtain tax relief for expenditure on 'plant and machinery', a term which includes both landlord's and tenant's fixtures and fittings, along with items such as heating, hot water and sanitary ware.

By the Treasury's own admission, this new stealth tax will raise an additional £2.27bn of tax over the next three years.

Currently expenditure on such assets may be written off for tax at a rate of 25 per cent a year, via a system called 'capital allowances'. So if an individual pub owner spends £50,000 on fixtures, he or she may save tax of £20,000, over the following years, depending on their own tax rates. Under the Revenue's proposals, which will take effect from next April, the rate of relief will be reduced, meaning that while the tax relief will still be given, it will come through much more slowly.

The Treasury has made a great deal of its new 'Annual Investment Allowance' (AIA), also to be introduced next April, which it claims will encourage investment. However, even purchasers of single pubs may find they are worse off. The problem is that the AIA is aimed at the smallest businesses, which spend no more than £50,000 on plant in a single year. Anyone buying even a single pub is likely to find that the part of the cost attributable to 'plant' is well over this £50,000 limit.

For example, a purchaser spending £500,000 on a pub may typically find that £150,000 relates to 'plant'. Currently, the whole of this would attract tax relief at a rate of 25 per cent per annum. From April, the first £50,000 will be relieved immediately (provided profits are sufficient). However, the balance will be relieved at a mixture of 20 per cent and 10 per cent. This is not the place to go into detailed calculations, but within four years of purchase, the whole of the AIA will effectively have been taken back by the taxman by slowing down the other capital allowances. So much for encouraging investment!

However, most pub owners have less cause for complaint about the proposed changes than you might think. This is because the majority have never claimed the tax reliefs available under the current system. They should certainly do so in future, and perhaps the 'headline' 100 per cent AIA may encourage them.

In essence, anyone buying a pub should appoint a specialist to survey the property and quantify the expenditure qualifying for tax relief. There is nothing controversial about doing this – yet few individual pub owners make the effort, resulting in a voluntary overpayment of tax.

Fewer benefits for the big boys

Larger pub operators will derive proportionally less benefit from the AIA – for a large company, it will be worth £15,000 – hardly likely to impact on share prices! They will be hit far worse by the reduction in the rate of capital allowances, with the scope of the new 10 per cent allowance being of particular concern. The Revenue has asked for comments on its proposals by October 19, and breweries and pub operators would be well advised to make sure their views are heard.

The key to the Revenue's proposals is that certain assets would qualify for relief, not at the new generally available rate of 20 per cent per annum, but at only 10 per cent – the stated logic being that they are assets which have a long life, and therefore do not need an accelerated form of tax relief. They are described as "fixtures integral to a building", and comprise lifts, central heating and air-conditioning.

Tax relief is available on 'plant and machinery', which includes items such as sanitary ware, heating and hot water

The government has asked for views as to whether electric lighting and power, and hot and cold water systems should also be included. Inclusion of these items would undoubtedly hurt pub operators further at a time when, having dealt with the smoking ban and floods, they can ill afford it. Furthermore, although the government does not currently propose to extend the 10 per cent allowance to expenditure on items such as toilet and kitchen facilities, publicans should be wary. Those affected should certainly respond to the Revenue's proposals.

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