Hospitality business owners 'in the dark' about valuable tax relief

by Mark Tighe *(below)*, CEO tax relief specialists Catax

A shocking two in five businesses in the hospitality industry are completely in the dark about a valuable tax relief called 'Capital Allowances', according to a poll we carried out recently of UK business owners.

The poll also revealed that nearly half (46%) of hospitality businesses that own their own premises have never had Capital Allowances brought to their attention by their accountants. Given the money at play here, this is a major issue.

Capital Allowances, if you've never heard of them before yourself, are a tax relief available on the 'intrinsic fabrication' of a commercial property that a business owns. Qualifying items typically include pipework, cabling, heating, lighting and air conditioning, security and communication systems.

Probably the best way to understand capital allowances is to visualise yourself physically turning a hotel, bar or restaurant upside down and then shaking it quite hard. In essence, anything that wouldn't fall out is what you can claim capital allowances against.

Now Capital Allowances are obscure at the best of times but they can be extremely lucrative when identified. The average net benefit we uncover is worth £46,000, with the rebate usually received from HMRC in the form of ongoing tax relief or a cash lump sum. So it's vital people and businesses that own commercial property in hospitality are aware of them.

However, it can be a lot more than that. For example, a hotel in Cambridgeshire instructed us to carry out a Capital Allowances audit. Having surveyed the property in detail, which they had purchased for £1,100,000, we discovered £207,000 of unclaimed capital allowances in the building's intrinsic fabrication – related to foul water disposal and heating installations.

That was a 19% proportion of the original purchase price of the hotel. The net tax benefit to the owner, at their higher tax rate, was £83,000 (40% of £207,500.) I know for a fact that the repayment has made a real difference to their business.

It is also worth mentioning that following fairly recent changes to tax law it has become even more important for hospitality businesses to have Capital Allowances firmly in their thoughts. Any unclaimed relief must now be identified and documented before or at the point at which a commercial property is bought or sold – or it will be permanently lost.

So what's the process of identifying unused Capital Allowances? Here at Catax, we start by establishing the history of the property.

First, we look at the details of any prior claims made by an accountant. If we conclude unclaimed capital allowances do exist, then we carry out an in-depth forensic survey of the entire site.

We then produce a report that details the reasons for making a claim on items within the property. It is then sent to the client's accountant along with guidance on how to submit the claim to HMRC.

Catax will only charge a fee if the unclaimed allowances that have been identified amount to over £50,000. This means there is no risk and no upfront costs for any hospitality businesses that work with us.

In the end, capital allowances are a right and not a privilege. If hotel, restaurant or B&B owners have incurred the costs of buying, building or adjusting their building – they deserve the tax benefit. So be sure to put in for yours today.