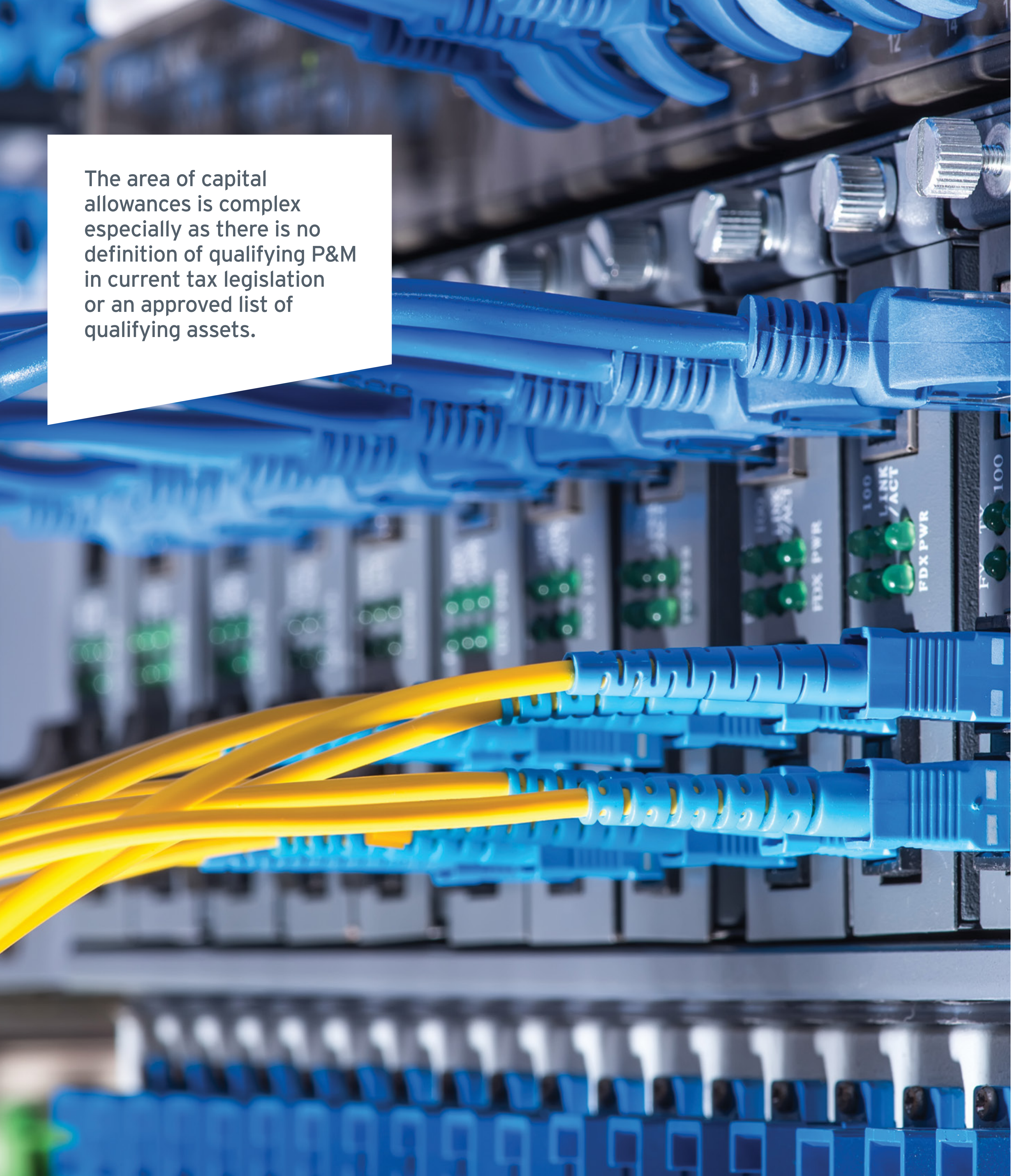
Tax relief for capital spend

EY
Building a better working world



The area of capital allowances is complex especially as there is no definition of qualifying P&M in current tax legislation or an approved list of qualifying assets.

Tax depreciation/capital allowances are a form of tax relief which enable a taxpayer to write off the cost of qualifying assets against taxable profits over a period of time at a predetermined rate.

Overview

EY's dedicated group of capital allowance experts and chartered quantity surveyors have extensive experience preparing the following claims:

- Wear and tear allowances (WTAs) for qualifying plant and machinery (P&M) – 12.5% over 8 years
- Industrial buildings allowances (IBAs) – 4% over 25 years
- Accelerated capital allowances (ACAs) for certain energy efficient equipment – 100% in year 1
- Purchase claims; purchase price apportionments, following real estate acquisition
- Look back claims – potential repayment of tax (depending on the facts, it may be possible to go back up to 4 years to amend a company's tax return and associated capital allowances)
- Analysis for R&D claims – both for P&M and industrial buildings

The area of capital allowances is complex especially as there is no definition of qualifying P&M in current tax legislation or an approved list of qualifying assets. There are a number of conditions to be satisfied, most of which have been established through years of case law and Revenue precedence.

Therefore effective capital allowance management can have the benefit of maximising your entitled tax relief, resulting in significant tax savings. A capital allowance review can also result in amendments of previous tax returns to recover unclaimed allowances from prior years.

Benefits of claiming capital allowances

These include:

- Claim an immediate tax/cash benefit, retain cash within your business and improve cash flow
- Significantly reduce or fully shelter a tax liability on trading and/or rental profits
- A professional review will ensure your claim is maximised, fully compliant and robust to Irish Revenue scrutiny
- No restrictions on high earners claiming WTAs and most IBAs dependent on specific circumstances
- Possible cash refund/repayment of taxes

Triggers for a capital allowances review

These include:

- Plans to incur or already have incurred significant expenditure on fixed assets or construction works, including new build projects, extensions, data centres, fit outs and refurbishments
- Real estate acquisitions; where properties are acquired purchase claims may be possible
- Numerous open years, and/or difficulty agreeing capital allowances claims with Irish Revenue
- Difficulty identifying assets which may qualify for capital allowances from procurement documentation or accounting records
- Investing in or holding a large portfolio of properties

Plant and machinery

Expenditure incurred on the purchase of qualifying P&M, in use at the end of the accounting period for the purposes of a trade, profession, vocation, or employment, qualifies for WTAs. The current rate of capital allowances for P&M is 12.5% on a straight line basis.

There is no legislative definition of what constitutes qualifying P&M nor is there an approved list of qualifying assets. As a result, this is a complex area derived primarily through case law and Revenue precedence. Our team of experts can help you maximise your claims in a robust manner.

Some examples of P&M can include:

- Heating, ventilation and air-conditioning installations
- Lifts, escalators, and moving walkways
- Electrical installations; generators, transformers and switchgear
- Sanitary fittings
- Furniture and fittings
- Catering equipment
- Computers/IT equipment

Industrial buildings

An industrial building is a building or structure used, inter alia, for the purposes of a trade carried on in a factory or similar premises. Several types of buildings or structures can qualify. The annual allowance for a qualifying building is 4% on a straight line basis.

Accelerated capital allowances

Energy Efficient Equipment

Accelerated capital allowances (ACAs) provide 100% tax relief in the year of expenditure and are available to companies and unincorporated businesses for expenditure on eligible energy efficient equipment. Qualifying equipment can be found on the Triple E Products register, which is operated by the SEAI in conjunction with Irish Revenue. Leased equipment does not qualify and the scheme is due to run until December 2020.

The main equipment categories include:

- Building energy management systems
- Lighting
- Motors and drives
- Information and communications technology
- Heating and electricity provision
- Process and heating, ventilation and air-conditioning control systems
- Electric and alternative fuel vehicles
- Catering and hospitality
- Electromechanical systems
- Refrigeration and cooling

Childcare and fitness facilities

From January 2019, ACAs are also available for expenditure incurred on the construction of facilities used by employers to provide employees with childcare or fitness facilities.

The relief will not be available to commercial childcare or fitness businesses, or to passive investors, rather where employers provide such facilities for their employees. The aim of the measure is to remove barriers to work, to promote more affordable and convenient childcare, and to promote the health of employees.

The scheme has two rates of relief:

- 100% accelerated capital allowances in the year of expenditure for plant and machinery; and
- Accelerated relief over seven years for expenditure on buildings/structures (claimed at 15% per annum for six years and 10% in year seven)

Repairs and dilapidations

In the case of the refurbishment of an existing building quite often some or all of the expenditure incurred may be revenue, rather than capital in nature, in returning the building to its former state. From a tax perspective, identification of repair and maintenance cost items can often provide a 100% tax deduction in the year the expenditure is incurred, to be offset against rental or trading income, as appropriate.

Our methodology

Our tried and tested methodology of preparing maximised robust capital allowances claims involves some or all of the following:

Initial requirements 1

Step 1 – Plan and gather

- **Project management**
  - Lead the engagement from start to completion, liaising directly with the client team (finance, accounts, real estate, facilities etc.) and external consultants (design team members, estate agents etc.) to obtain the necessary cost and other technical project documentation required and to arrange site visits/inspections etc.
- **Meetings and liaison**
  - Initial discussions with the client team and external consultants to introduce key personnel, agree timetable, information requirements and areas of focus.
- **Entitlement and compliance**
  - Determine whether an entitlement to claim capital allowances exists. This normally involves review of background documentation such as; contracts for sale, lease agreements or development agreements to establish tax technical entitlement. Ensure all tax technical entitlement criteria are fully satisfied in terms of current legislation and Irish Revenue precedent.

Preparation and entitlement 2

Step 2 – Evaluate

- **Real time analysis**
  - Meet with the client team and external consultants before commencement or while the project is underway in order to specify the necessary content and level of detail required in fixed asset additions ledgers, contractor/vendor pricing documents and invoices, to ensure the capital allowances claim can be maximised and fully supported.
  - Make the client team and external consultants fully aware of the SEAI qualifying list of energy efficient products for ACAs at an early stage in the project life cycle, so that specifications and the procurement process can be tailored to maximise tax relief in this area, before contracts are awarded and the procurement process completed.
  - Liaise with the client team and external consultants in order to collate all required information for the review; pricing documents/ bills of quantities, specifications, operation and maintenance manuals, floor plans, final account cost reports etc., while the project is live and the information is readily available. These will be used for the analysis and to compile an audit ready paper trail to support the claim.
  - Visit the site as the installations are underway or nearing completion for a walk-through inspection of the property to identify and document qualifying P&M and/or energy efficient equipment.

Detailed review 3

Step 3 – Create

- **Claims process**
  - Investigate the availability of ACAs as well as compiling an audit ready paper trail of the technical product documentation required to verify the energy efficient equipment is on the SEAI qualifying list during the relevant accounting period it is purchased.
  - Conduct a site visit (with Irish Revenue if required), to discuss areas of claim. We will work with you to have ongoing discussions with Irish Revenue, as required, to ensure a smooth and transparent process is in place for reviewing the capital allowances analysis.
  - Analyse the relevant available documentation collected and carry out treatment of all expenditure items into qualifying and non-qualifying, including computing the apportionment of 'on costs' on a qualifying P&M pro rata basis. Supplement any deficiencies in details of construction costs by proactively utilising our quantity surveying skills to arrive at defendable valuations, thus minimising any further information required, where possible.
  - Reconcile our capital allowances analysis to your fixed asset additions/construction in progress ledger for all periods in which capital expenditure is incurred.

Agreement 4

Step 4 – Deliver and finalise

- **Submission**
  - Prepare a detailed tax report that identifies the capital allowances available, summarises the supporting documentation collated as part of the review and fully substantiates the claim in a robust manner.
  - Meet with you to discuss the results of our review and agree any amendments.
  - Liaise with the client team throughout the process to ensure they have all the information they require to include the capital allowances claims in the tax computations.
- **Irish Revenue agreement**
  - Present the results of our analysis to Irish Revenue with a view to seeking Revenue agreement on the capital allowances analysis.

Our methodology-Capital Allowances Automated Review Tool (CAART)

Leveraging CAART to deliver accuracy, consistency and efficiency to clients

- We have developed a ground-breaking Capital Allowances Automated Review Tool (CAART) which uses artificial intelligence to determine the tax treatment of capital additions
- CAART incorporates the application of tax legislation, case law, common practice and understanding of building and asset terminology replacing the manual line-by-line exercise that is otherwise required
- The tool can process information from fixed asset systems and construction cost documentation and process thousands of lines of data in a matter of seconds
- As a result we are able to focus specialist time on areas that bring added value to your capital projects, reducing risk and improving results

Benefits of incorporating AI into capital allowance analysis:

- Accurate result
- Greater consistency
- Efficiency improvement
- Potential for increased tax relief
- Minimal set up/implementation costs

1 Input raw data

- Construction cost information
- Fixed asset registers

- Tax legislation
- Case law
- Previous analyses
- Construction terminology

2 CAART analysis data using AI

3 Output of capital allowences analysis

More accurate tax categorisation

Capital allowances analyses are:

- Accurate
- Consistent
- Efficient

Our process and methodologies

How can EY help?

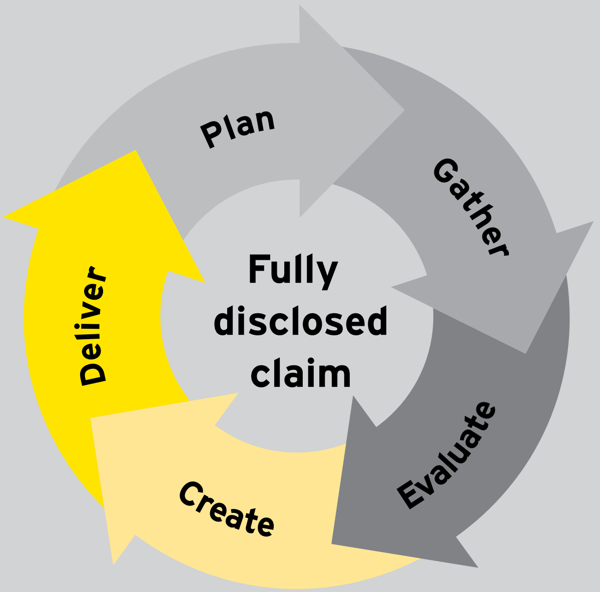
Plan our work and agree our methodology with you. Record this and control the work using the capital allowances plan.

Gather the data needed to support a claim through direct liaison with the relevant key people involved in the project and use of EY's CAART software.

Evaluate all expenditures incurred by reference to specific cost categories and the function of the individual asset in the business.

Create an audit trail that records and analyses all information in an innovative and fully transparent format.

Deliver a fully disclosed capital allowances report to meet the obligations imposed by the self assessment regime, and agree our results with Irish Revenue.



Who we are

- Our dedicated multidisciplinary team is made up of accountants, tax professionals, chartered quantity surveyors, engineers and industry specialists with extensive practical experience assisting clients across a range of industry sectors and asset types to maximise their capital allowance claims in a fully compliant manner.
- Based on the high volume of successful claims our team have prepared we have developed a proven methodology for building robust capital allowance claims.
- We liaise regularly with Irish Revenue to successfully agree capital allowance claims and have developed a strong working relationship with Irish Revenue over the years.
- Our methodology reflects our deep understanding of the complex tax and legal precedents and Irish Revenue's approach in this area.
- Where relevant property assets are located outside ROI and not subject to the Irish capital allowances regime, we can co-ordinate locally fully compliant capital allowances reviews for other jurisdictions if required, through the wider global EY Quantitative Services network.

Our track record – Credentials

Recent examples of EY's capital allowances experience include:

Global pharmaceutical company
Project: Biologics manufacturing campus
Spend: €540m (2018-20)

Global pharmaceutical company
Project: Global HQ office fit out (Dublin)
Spend: €15m (2017-18)

Global technology company
Project: office fit out – expansion space
Spend: €14m (2018)

Private developer
Project: Purchase claim apartment building (25 units)
Spend: €9.3m purchase price (2014)

Irish drinks manufacturer
Project: Spirits manufacturing and distribution facilities
Spend: €67m (2018-19)

International pharmaceutical company
Project: Pharma manufacturing facilities (Dublin and Athlone)
Spend: €555m (2018-19)

Irish Plc
Project: HQ office refurbishment
Spend: €10m (2013-15)

Global medical devices company
Project: Extension to production facility
Spend: €10m (2013-14)

International Food and drink retailer
Project: Multiple store locations
Spend: €110m (2015-19)

Global technology company
Project: Irish data centre (phases 1 & 2)
Spend: $850m USD (2015-19)

Independent family distillers
Project: New whiskey production facility
Spend: €42m (2013-14)

Global retailer
Project: Base build new HQ office
Spend: €27m (2016-17)

Global pharmaceutical company
Project: Bulk biologics manufacturing facility and QA laboratory
Spend: $650m USD (2014-17)

Global technology company
Project: EMEA HQ (Dublin) and London HQ office fit outs
Spend: €25m (2013-14)

Irish semi state company
Project: Base build new HQ office (Dublin)
Spend: €95m (2018-20)

Irish semi state company
Project: HQ office refurbishment
Spend: €13m (2016-2017)

EY Capital Allowances Team

For more information on the capital allowances regime, please contact:

Ian Collins
Partner
Head of Irish Quantitative Tax Services Practice
Tel: +353 1 221 2638
Email: ian.collins@ie.ey.com

Enda Kelly
Director
Mechanical Engineer
Tel: +353 1 221 2553
Email: enda.kelly@ie.ey.com

Seán McMahon
Senior Manager
Quantity Surveyor
Tel: +353 1 221 2136
Email: sean.mc.mahon@ie.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

134408.indd 05/21. Produced by Creative (Ireland)
ED None

ey.com