

Capital Allowances in the Hospitality Trade

The 2009 decision in the JD Wetherspoon plc versus HM Revenue & Customs case regarding capital allowances makes interesting reading for anyone in the hospitality trade.

The case revolved around the types of expenditure, in respect of the refurbishment of nearly 300 pubs, that qualify for capital allowances.



This case helped to clarify whether certain refurbishments could be defined as plant and machinery. This is important as businesses can claim tax relief on plant and machinery, usually at a 20 % reducing balance (to be reduced to 18% with effect from 1 April 2012).

The periods concerned were prior to the introduction of the new integral features category of expenditure for capital allowances purposes on 1 April 2008 and some of the expenditure considered in this case would certainly have qualified under this new regime.

However, arguably this case has extended the meaning of plant and machinery to items of expenditure that, whilst not plant and machinery in themselves, may actually qualify for plant and machinery capital allowances. The main focus of attention is on whether there is sufficient connection between the installation of the plant and machinery and the associated spend that accompanies it, in other words is the associated spend incidental to the installation of the plant and machinery.



For example:



- A kitchen floor had been removed and replaced with a strengthened concrete floor to take the additional weight of the new kitchen equipment. As the floor was required before the equipment could be installed and used at all, there was deemed sufficient connection between the floor and the equipment it would support and the expenditure on the floor did qualify as plant and machinery for capital allowances purposes.
- An inclined floor in a cold storage area, installed to allow drainage to a drainage channel and associated pump (both of which were plant) was also allowed as plant and machinery as it was incidental to the installation of the plant (the channel and the pump).
- Splashbacks to protect against equipment, such as sinks and lavatories, producing splashes were classed as plant and machinery.
- Tiles forming part of the general wall and floor coverings functioning as splashbacks did not qualify as plant and machinery. However HM Revenue & Customs accepted that a proportion of such wall and floor tiling did qualify but the courts held that this was concessionary practice.
- Non-slip and wipe clean floors were not considered to be plant and machinery.
- As it was intended to create an enhanced ambience, the installation of lighting in the ladies toilets qualified as plant and machinery.
- The cost of installing partitions and walls between toilet cubicles, bowls and cisterns also qualified as plant and machinery.

These examples highlight the need to analyse refurbishment expenditure fully to ensure that where expenditure is required on something other than the plant and machinery, and it is required to allow the plant and machinery to operate correctly, it may be possible to claim that the additional expenditure should qualify for capital allowances.

With capital allowance rates due to decrease from 20% or 10% to 18% or 8% from 1st April 2012, it is essential that where refurbishment expenditure is incurred, specialist advice is obtained, to ensure the maximum deductions for capital allowances are obtained.



Capital Allowances is a complex subject and for further advice and assistance our specialist Tax Consultancy Department will be pleased to help.

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