

FOCUS ON

Land Remediation Relief

With the increasing amount of development on brownfield sites, remediation of land can be a significant cost.

Land remediation relief can reduce the overall cost by providing additional tax relief (on cash credits) over and above standard tax relief. You should consider whether this would be applicable for your business, to ensure you are not missing out.

Land remediation relief (LRR) can improve your company's cashflow by reducing its tax liability and, in some cases, by obtaining a tax repayment (Land remediation credit).

This relief is available on qualifying expenditure on land or buildings in the UK that have been acquired by a company and, at the time of acquisition, this land was in a contaminated or derelict state.

What relief is available?

LRR can be claimed on the cost of employing staff who are engaged in carrying out the remediation, the cost of materials that are used and on payments made to subcontractors that are assisting with the remediation (including certain professional fees).

The relief is available for such costs whether they are capitalised or expensed in the P&L.

A business can claim relief in one of two ways. It can set 150% of its qualifying expenditure against taxable profits; that is, it can reduce the amount of profits on which it has to pay tax by an additional 150% of the spend for revenue costs, and an additional 150% of the spend if the costs were capitalised.

Or, if a business makes a loss, it can take advantage of the credits by claiming a 24p per £1 cash refund on the qualifying expenditure (which equates to a rate of 16p per £1 on the enhanced expenditure).

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Example

A company spends £20,000 on qualifying land remediation that is expensed to the P&L. In addition to the standard tax relief for the expenditure, it can claim relief on an additional £10,000 (£20,000 x 50%). Assuming a tax rate of 20%, this results in a £2,000 tax saving. If the costs had been capitalised, there would have been a £6,000 (£20,000 + £10,000, at 20%) saving.

What is contamination?

Land or buildings are contaminated if, as a result of industrial activity, there is contamination present that causes or could cause “relevant harm”, i.e. significant adverse impact on the health of humans or animals, or damage to buildings that would impact on the way that the building is used.

Examples of remediation include:

- the installation of a membrane, or extra thick topsoil, to prevent soil contaminants reaching the surface.
- removal of oil following a leakage from storage.
- eradication of Japanese knotweed at a site.
- removal or safe containment of asbestos.

There is also a more recent extension to cover remediation of land in a derelict state (i.e. land that is not in a productive state and cannot be put into a productive state without the removal of buildings or other structures). To qualify for this element of the relief, the expenditure must be on relevant preparatory work (e.g. establishing the nature and condition of the structures) or on the removal of the following:

- Post tensioned concrete heavyweight construction
- Building foundations and machinery bases
- Reinforced concrete pilecaps
- Reinforced concrete basements
- Below ground redundant services

Can I get help to establish a claim?

The tax relief available is generous, but claims must be properly made to ensure they meet HMRC requirements. HMRC will review all claims carefully so it is important to work with experienced tax advisers to ensure any claim meets the necessary criteria.

Any business that wishes to claim LRR should consult with its accountants or professional advisers. MHA MacIntyre Hudson has significant experience in preparing and submitting LRR claims in a variety of industries, although primarily in the property and construction sector.

Contact us

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