

Partitions are subject to 10% capital allowances

Rather than constructing or renting additional office space to house more employees, some businesses choose to partition their existing offices into smaller sections. This approach creates extra offices within the same space and saves significant costs that would otherwise go towards acquiring new premises. These partitions qualify for capital allowances at a rate of 10%, instead of the 2.5% rate applied to buildings. Read on as we explain the reasoning behind this treatment. In this article, words importing the masculine should be deemed to include the feminine.

Understanding Capital Allowances

In taxation, certain assets qualify for capital allowances, which allow the cost of those assets to be deducted over their useful life until the full cost is written off. In accounting, this concept is referred to as depreciation. Assets that qualify for capital allowances are broadly classified as either buildings or plant and machinery. The latter category covers a wide range of assets, including vehicles, fixtures, fittings and equipment.

Rate for partitions

Precedent case law defines 'plant and machinery' as including 'whatever apparatus is used by a businessman for carrying on his business..., fixed or movables..., which he keeps for permanent employment in his business.' The Income Tax Manual issued by the Ministry of Finance and Economic Development sets out the rates of capital allowances for various asset types. Under this guidance, plant and machinery, which includes movable office partitions, qualify for a 10% capital allowance rate. Partitions are treated as plant and machinery provided they are movable and not permanently fixed to the structure of the building. Although they resemble part of the building, they do not qualify for the 2.5% building allowance rate because they are not permanent structures. Movable partitions can be easily dismantled, relocated and reassembled without causing damage to the building, making them functional tools of the business rather than structural elements. Therefore, they cannot be awarded a capital allowance rate of 2.5% for buildings.

This assertion is supported by case law of John Good, where it was accepted that the partitions qualified as plant on the grounds that the company, as read in verbatim, 'instead of having internal walls in its office building, needs to have, and does have, for the special requirements of its business, moveable partitioning, by means of which it can, in response to changing volumes of business in its departments or to the cessation of departments or the emergence of new departments, rapidly and cheaply and without much interruption of business alter the subdivisions of its office building.' In short, the John Good case showed that movable office partitions qualified as plant & machinery, not just part of the building because they were used to meet the company's

specific business needs. The partitions could be easily moved or changed as the business grew or restructured, making them a functional tool of the trade rather than a permanent building feature.

Tax hint: If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant, or should it be apparent that you are not certain that your tax affairs are in good order, then don't wait for the taxman to pounce on you, as that can be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

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