

# **Tax Incentives for Fire Sprinkler Systems - United Kingdom**

## **Corporation Tax**

When a company in the United Kingdom installs a fire sprinkler system it can reduce its taxable income by part of the cost of the system. The system is called capital allowances.

In February 2003 Dawn Primarolo MP of Her Majesty's Treasury clarified in a letter to Jim Knight MP that, "The current rules for plant and machinery capital allowances allow businesses that invest in fire sprinklers to write off their expenditure at 25 per cent a year on the reducing balance basis. Small and medium-sized businesses can claim 40 per cent first-year capital allowances to write-off a greater proportion of their expenditure in the period in which it is incurred."

The threshold for small and medium-sized businesses was those "passing two of: turnover not more than £11.2m; assets not more than £5.6m; employees not more than 250." The turnover threshold was raised in the 9 April 2003 budget to not more than £20m. It is likely but not yet clear whether the assets threshold has also been raised.

This is a significant incentive for businesses to invest in fire sprinklers, particularly small and medium-sized businesses. In effect they will be able to reduce their tax payment and so recover some of the cost of the sprinkler system. There is no limit to capital allowances, except that they cannot exceed the profit of the company.

Corporation tax main rate is 30%. This means that if for example a small or medium-sized company invests £100,000 in a fire sprinkler system, in the first year £40,000 can be deducted from its corporation tax base, saving £12,000 or 12%.

## **Value Added Tax (VAT)**

In a letter dated 23 May 2003 to Glyn Evans of the U.K.'s National Fire Sprinkler Network, Jane Andrews, Head of VAT Liability at Her Majesty's Customs & Excise clarified when relief from value added tax is available for fire sprinkler systems.

"Although there is no specific VAT relief for domestic sprinkler systems, there are a number of circumstances where they can qualify for VAT zero-rating or reduced-rating if they are installed as part of a larger project that in itself qualifies for VAT relief.

"For example, the construction of a new dwelling is zero-rated. Similarly the construction of a communal residential building, such as a care home, or a building used by a charity for non-business purposes or as a village hall is zero-rated. Fire sprinkler systems installed in the course of constructing one of these buildings will also qualify for VAT zero-rating.

VAT zero-rating is also available for the first time installation of domestic sprinkler systems in listed buildings used as a dwelling or for a communal residential or charitable purpose.

"While that is the extent of the potential for VAT at the zero rate, there are occasions where VAT may apply at a reduced rate of 5% where a fire sprinkler is installed in a range of residential conversions and renovations, including:

- converting a residential property into a different number of dwellings (for example, converting a house into flats),
- converting a communal residential building into a dwelling or vice versa;
- converting a non-residential property into a dwelling or number of dwellings; and
- renovating a dwelling or communal residential building that has been empty for at least three years.

In all other cases the installation of domestic sprinkler systems is the subject of the standard rate of VAT - currently 17.5%."

The combined effect of corporation tax relief and value added tax relief mean that most fire sprinkler systems installed in the U.K. will enjoy some form of tax relief.