

Budget Speech 2006

Annex D - Review of Industrial Building Allowances

Current Treatment	New Treatment
No Initial Allowances and Annual Allowances are granted to purchasers of <i>new</i> buildings with leasehold interest less than 25 years.	To allow Initial Allowances and Annual Allowances to purchasers of <i>new</i> buildings with leasehold interest less than 25 years.
No Annual Allowances can be granted to a purchaser of a <i>used</i> building that was <i>not</i> previously used as an industrial building, even though the purchaser is using the building as an industrial building currently.	Eligibility to Annual Allowances will be based on the current use of the building as a qualifying industrial building.
To compute the Annual Allowances on purchased building, reference is made to the Residual of Expenditure (ROE) ¹ of the building, which is derived from the cost of the construction of the building.	To compute the Annual Allowances on purchased buildings (both <i>new</i> and <i>used</i>) based on the purchase price, without reference to the cost of construction. To compute the Initial Allowances on <i>new</i> purchased buildings based on the purchase price, without reference to the cost of construction.
No Annual Allowances can be allowed after the end of the 50 th year after the building or structure was first used.	To remove the 50-year restriction. The restriction is now based on the amount of expenditure incurred.

Note: These tax changes will take effect on purchases of buildings on or after 1 January 2006. The date of purchase will be the date of the Sale and Purchase Agreement.

¹ ROE is defined under Section 18(8) of the Income Tax Act to be the amount of the capital expenditure incurred in the construction of a building or structure reduced by the amount of allowances granted on the building and increased by any balancing charges made. The amount of AA the purchaser is entitled to is the higher of:

- (a) the ROE divided by the number of years of assessment for which the purchaser is entitled to annual allowances, ending with the 50th year after the year in which the building or structure was first used, or;
- (b) 3% of the ROE after the sale.