CAPITAL ALLOWANCES AND SUPER DEDUCTION

FREQUENTLY ASKED QUESTIONS

Please see below for a list of the most Frequently Asked Questions (FAQs) in relation to Capital Allowances and the new Super-deduction scheme announced in the UK 2021 Budget. The following information is accurate as of 26th April 2021, and has been checked against UK Government/HMT sources.

Capital Allowances: What are they?

Capital allowances let taxpayers write off the cost of certain capital assets against taxable income. Businesses deduct capital allowances when computing their taxable profits. You can claim capital allowances when you buy assets that you keep to use in your business, for example:

- Equipment
- Machinery
- Business vehicles

You can deduct some or all of the value of the item from your profits before you pay tax.

What does "qualifying plant and machinery" mean?

Plant and machinery includes items that you keep to use in your business and parts of a building considered integral. Plant and Machinery does not include things you lease (you must own them), buildings (including doors, gates, shutters etc.), land and structures (bridges etc.) and items used only for entertainment, such as a yacht.

What is the difference between "Main Rate" and "Special-Rate" assets?

The "Main Rate" is a pool of assets containing most Plant and Machinery. The Special Rate is a pool of assets that do not qualify for the Main Rate, and these include; parts of a building considered integral, items with a long life, and thermal insulation of buildings.

What is a "First-Year Allowance" (FYA)?

First Year Allowances are a tax allowance that permits UK businesses to deduct a portion of the cost of qualifying assets from pre-tax profits during the year the equipment purchased.

What is the definition of a "long life asset"?

Assets with a useful life of at least 25 years from when they were new.

Can I claim capital allowances and what are the benefits for my business?

You can claim plant and machinery allowances if you have a business and you buy assets for it which you keep to use in that business. You can claim if you're:

- Self-employed
- A member of a partnership
- A company or organisation that pays Corporation Tax

Capital allowances can be of significant benefit to your business as they allow you to reduce the level of corporation tax you pay.

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Before the 2021 Budget, what were the existing Capital Allowance Schemes?

The two main types of capital allowances for Plant & Machinery were the Annual Investment Allowance (AIA) and Writing Down Allowances (WDA). For the AIA:

- You can deduct the full value of an item that qualifies from your profits before tax – this would mean 100% of capital expenditure on the asset, up to the value of £1 million.
- The First-Year WDA of 18% (main rate) and 6% (special rate) can be claimed in addition to the annual investment allowance – they do not count towards your AIA limit.

What are Writing Down Allowances and when can they be used?

Writing Down Allowances (WDA) are capital allowances that can be claimed if you have already used the AIA on items worth a total more than £1m or if the items do not qualify for AIA.

Writing down allowances deduct a percentage of the value of an item from your taxable profits each year. The deduction percentage depends on the item.

What assets are not eligible for either the AIA or the WDA?

You cannot claim AIA on:

- cars (although business cars are eligible for the WDA)
- items you owned for another reason before you started using them in your business
- gifts to you or your business
- items used outside of your business (example: You buy a laptop for £600. You use it outside your business for half of the time. The amount of capital allowances you can claim is reduced by 50 %.)
- If your entity is a trustee or mixed partnership (partnerships not made up entirely of individuals)

What assets are considered eligible for the AIA and WDA?

Eligibility criteria for solely the Annual Investment Allowance are ascertained as follows:

- Majority of P&M assets (also including assets acquired partly or wholly for the purposes of a ring fenced trade)
- If a sole trader or partner has more than one business or trade, each business will get an AIA unless both businesses are controlled by the same person, or both businesses are in the same premises or have similar activities.

Special-rate category asset eligibility refers to the following:

- parts of a building considered integral - known as 'integral features'
- items with a long life
- thermal insulation of buildings

"Integral features" examples include lifts, escalators, space and water heating systems, air-conditioning, electrical systems, and hot and cold water systems. Long-life assets have a useful life of at least 25 years. Buildings themselves do not qualify for capital allowances.

"Ring-fenced trade" refers to a trade of extraction of oil or gas in the UK or UK Continental Shelf.

The main rate pool of assets refers to the majority of Plant & Machinery assets.

New Super-Deduction and 50% First Year Allowance

What are the changes to the Capital Allowances schemes announced in the 2021 Budget?

The new measures mean that your business can now benefit from significant new capital allowances:

- The super-deduction –offers 130% first-year relief on new/unused qualifying main rate plant and machinery investments until 31 March 2023
- For example if your company spends £1,000,000 on machinery, this allows you to claim a deduction of £1,300,000 from your taxable profits – assuming a corporation tax rate of 19%, this leads to a saving of 24.7p for every £1 spent
- The second change is a 50% first-year allowance (FYA) for special rate (including long life) assets until 31 March 2023, offering your company the ability to claim a deduction of 50%

Can I utilise the new super-deduction and 50% first year allowance?

The super-deduction and 50% FYA capital allowance schemes can only be utilised by limited companies (i.e. they must pay corporation tax). Individuals, partnerships and LLP's cannot benefit. If your business is not eligible for the super-deduction, you may be eligible for the AIA (see above for details).

I ordered a piece of machinery for my business on the 1st of March 2021 for delivery in April 2021. Can I claim the 130% super-deduction on this expenditure?

Under the super-deduction rules, there are exclusions for expenditures on contracts entered into prior to 3 March 2021, even if expenditures are incurred after 1 April 2021.

What assets are eligible under the new super-deduction scheme?

Eligible items include capital investment in new and unused assets subject to some exclusions, however this includes most Plant & Machinery. Whilst no exhaustive list exists, examples are included below.

- Tractors, lorries, vans
- Ladders, drills, cranes
- Foundry equipment
- Compressors
- Refrigeration units
- Solar panels
- Electric vehicle charge points
- Computer equipment and servers
- Office chairs and desks,

Assets eligible for the 50% "special-rate" allowance remain the same as those listed above qualifying for the special-rate 6% allowance.

What assets are not eligible as part of the new super-deduction scheme?

Asset that do not qualify for the super-deduction are as follows:

- Assets purchased second-hand or used assets
- Assets used wholly or partly within a ring fenced trade (see "What assets are eligible for the AIA and WDA?" for definition)
- Expenditure on the provision of plant or machinery for leasing
- Cars
- Assets purchased as a gift
- Letting of a ship on charter or of any other asset on hire (regarded as leasing)
- Asset expenditure takes place in the final accounting period before being discontinued

Do these new allowances replace the annual investment allowance (AIA)?

No – the AIA will continue to exist. AIA eligibility criteria and threshold of £1m deduction limit will remain the same . Expenditure on second-hand plant and machinery for instance can still benefit from AIA.

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