

Asset Finance

Full Expensing Scheme

The full expensing scheme was launched to stimulate business investment and promote economic growth.

Full expensing has been designed to encourage UK businesses to invest in eligible assets and was introduced as a replacement for the Super Deduction scheme.

Under the full expensing scheme, companies can claim a 100% first year allowance ("FYA") on assets that would otherwise qualify as main pool plant and machinery investments (i.e. main pool assets). In addition, there is a 50% FYA on assets that would qualify for the special rate pool with the balance being introduced to the special rate pool as normal.

Features and benefits

By taking advantage of the full expensing and investing in eligible assets, businesses can save up to 25p for every pound they invest.

The full expensing works like this:

- A company spending £5m on eligible assets can claim capital allowances equal to 100% of the qualifying expenditure.
- £5m of investment means that the company can deduct £5m (100%) from its taxable profits, essentially saving the company up to 25% on its corporation tax bill. This is a saving of 25p for every pound invested.

What is in Scope?

Most tangible assets used in the course of a business are considered in scope. The plant and machinery expenditure must be for new and unused assets, including assets on hire purchase, but must not be a car, given to the company as a gift, or bought to lease to someone else.

Assets that qualify for a FYA at 100% include (but are not limited to):



Commercial vehicles including HGVs, vans and tractors, but excluding cars



Construction equipment e.g. cranes and diggers



Tools and machinery



IT and office equipment

Assets that qualify for a FYA at 50% include (but are not limited to):



Space and water heating systems



Air-conditioning and air cooling systems



Solar panels



Electrical systems, including lighting system



Elevators and escalators



Hot and cold water systems (but not toilet and kitchen facilities)

Assets that are ineligible for the full expensing scheme include:



Buildings and structures



Used or second hand assets



Cars



Assets held for leasing

Companies, subject to corporation tax, could benefit from the full expensing and FYA. Individuals, Partnerships and Limited Liability Partnerships (LLPs) may be eligible for the Annual Investment Allowance (AIA).



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How does Full Expensing (FE) and FYA work?

All examples assume a corporation tax rate of 25%. The calculation for total tax saving is the corporation tax rate multiplied by the total value of deduction. The calculation for tax savings per £1 spend is simply the total tax saving divided by the initial investment.

Expenditure	Example 1 – £750,000		Example 2 – £2,000,000	
	Option 1: FE	Option 2: AIA	Option 1: FE	Option 2: AIA + WDA
Capital Allowance Scheme				
Capital Allowance Utilised (@100% - FE/AIA)	£750,000	£750,000	£2,000,000	£1,000,000
Remaining balance to CA pool	£0	£0	£0	£1,000,000
WDA (@18%)	£0	£0	£0	£180,000
Total Capital Allowances claimed	£750,000	£750,000	£2,000,000	£1,180,000
Corporation Tax Rate	25%	25%	25%	25%
Tax Savings	£187,500	£187,500	£500,000	£295,000
Indicative Net Tax Saving*	£153,750	£153,750	£410,000	£205,000

*Difference between Full Expensing being claimed as far as possible and Writing Down Allowance's (WDA) being claimed on eligible expenditure.

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