M+A Partners

Capital Allowances

Reliefs for companies

Capital allowances can be claimed when purchasing tangible capital assets to use within a business, enabling the cost to be written off against taxable income.

Companies are now currently able to benefit from four significant measures that will allow them to lower their corporation tax bills while helping to stimulate business investment. These measures include a 130% super-deduction and 50% first year allowance, both of which were introduced from April 2021 for investments in qualifying assets.

Examples of qualifying assets

Capital allowances can be claimed on items that are kept for use within a business - this could be on 'plant and machinery' or on 'integral features'.

Examples of plant and machinery, which may qualify for the super-deduction allowance include, but are not limited to:

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

Examples of integral features, which may qualify for the 50% first year allowance include, but are not limited to:

- Solar panels;
- Lifts, escalators and moving walkways;
- Electrical systems, including lighting systems;
- Hot and cold water systems; and
- Air-conditioning and air-cooling systems.

Capital allowances cannot be claimed on:

- Items that are leased;
- Buildings, including doors, gates, shutters, mains water and gas systems;
- Land and structures, for example bridges, roads and docks; and
- Items used only for business entertainment.

However, **Structures and Buildings Allowances (SBAs)**, covering the construction and renovation of non-residential structures and buildings, may be available instead.

Click here for more details on SBAs:

Annual Investment Allowance (AIA)

100% relief remains available for qualifying investments up to £1 million until 31 March 2023. This is in addition to the super-deduction and first-year allowances detailed below.

Click here for more details on AIA:

The super-deduction

The 130% super-deduction enables companies to claim 130% first-year relief for expenditure incurred between 1 April 2021 and 31 March 2023 on most new plant and machinery investments that normally qualify for 18% main rate writing down allowances.

50% First-Year Allowance (FYA)

This capital allowance for investments in integral features on expenditure incurred between 1 April 2021 and 31 March 2023 offers a 50% FYA for expenditure on new assets that would normally qualify for 6% special rate writing down allowances.

Important points on the super-deduction and FYA:

- Excludes contracts entered into prior to 3 March 2021, even if expenditure is incurred after 1 April 2021;
- The rate of the super-deduction will require apportioning if an accounting period straddles 1 April 2023. The rate should be apportioned based on days falling prior to 1 April 2023 over the total days in the accounting period;
- The disposal value for capital allowance purposes should take the disposal receipt and apply a factor of 1.3, except where disposals occur in accounting periods straddling 1 April 2023, resulting in a factor lower than 1.3 (this rule does not apply to the 50% first-year allowance for special rate expenditure);
- Certain expenditure will be excluded, including used and second-hand assets and expenditure on cars; and
- Plant and machinery expenditure which is incurred under a Hire Purchase or similar contract must meet additional conditions to qualify for the super-deduction and special rate relief.

Enhanced Capital Allowances (ECA+) and Structures and Buildings Allowance (SBA+)

Within Freeport tax sites, companies can access ECA+ and companies, individuals and partnerships are able to benefit from an increased level of SBA+ for investments until 30 September 2026.

An example of the super-deduction in practice

Previous system:

+ A company spends £10m on qualifying assets;
+ Deducts £1m using the **AIA** in year 1, leaving £9m; and
+ Deducts £1.62m using **WDAs** at 18%.

Deductions total £2.62m and a tax saving of 19% x £2.62m = £497,800.

With super-deduction:

+ The same company spends £10m on qualifying assets; and
+ Deducts £13m using the **super-deduction** in year 1.

Receives a tax saving of 19% x £13m = £2.47m.

With the super-deduction and FYA due to end on 31 March 2023 and corporation tax rates increasing to 25% on 1 April 2023 for companies with profits in excess of £50,000 (or even lower where there are associated companies), careful consideration should be given to the timing of future expenditure to ensure capital allowances are claimed in a tax efficient manner whilst not adversely impacting on future cashflows and corporation tax liabilities. We can provide assistance with this.

At M+A Partners, we are here to advise and support you in applying the new capital allowances measures. If you need any further assistance, then please get in touch with your usual M+A Partners contact or email: enquiries@mapartners.co.uk

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