BUSINESS & PERSONAL TAX SUPPORT

Capital Expenditure

Tax breaks 2022/23

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If you are running a business and you invest in plant and machinery, you may be able to claim relief for that expenditure in the form of capital allowances. There are various allowances available, and the available allowances will depend on the nature of the expenditure, when it is incurred and whether you operate as an unincorporated business or as company. In particular, there is a limited window to take advantage of the temporary higher limit for the Annual Investment Allowance, and also the super-deduction and 50% first-year allowances available to companies.

If you use the cash basis to prepare your accounts, different rules apply to provide relief for your capital expenditure.

What are capital allowances?

Capital allowances provide a deduction for qualifying capital expenditure when computing your profits. Depending on the allowances available, you may receive relief in full for the expenditure in the accounting period in which it was incurred, or it may be spread over several accounting periods.

Plant and machinery capital allowances

Unless you prepare your accounts using the cash basis, you can claim plant and machinery capital allowances for expenditure on items that you use in your business, such as computers, machinery, office furniture, equipment, and business vehicles. There are a number of different allowances available.

Annual Investment Allowance

If you incur expenditure that qualifies for the Annual Investment Allowance (AIA) you can deduct the cost of that expenditure in full in the accounting period in which you incurred, it up to the amount of the available AIA limit. In this way, the AIA gives immediate 100% relief for the expenditure.

Writing down allowances

Writing down allowances (WDAs) provide relief for qualifying expenditure on plant and machinery over a number of years. You can claim WDAs if you have used up your AIA limit of if the expenditure does not qualify for the AIA, as is the case for business cars. You can also claim WDAs instead of the AIA if you prefer.

You can claim writing down allowances at the rate of 18% on items that are allocated to the main rate pool. This will be any qualifying expenditure on plant and machinery that does not need to be allocated to the special rate pool or to a single asset pool.

You can claim allowances at the lower rate of 6% for items that are allocated to the special rate pool. This includes cars with CO2 emissions over a certain threshold, integral features, long life assets and thermal insulation.

If you use an item both privately and for the business, you need to allocate it to a single asset pool. You can claim WDAs on the business-use element.

First year allowances

Like the AIA, first-year allowances provide a 100% deduction for capital expenditure in the accounting period in which it is incurred. You can claim first year allowances for new zero-emission cars and goods vehicles, and for certain other specialised capital assets.

Super-deduction

If you operate your business as a company within the charge to corporation tax, you can claim a super-deduction of 130% for expenditure that would otherwise qualify for main rate capital allowances which is incurred in between 1 April 2021 and 31 March 2023. The rate is reduced if the accounting period spans 1 April 2023. The super-deduction operates as a first-year allowance.

Special Rate (SR) allowance

The SR allowance is another temporary first-year allowance available to companies within the charge to corporation tax. You can claim the allowance if you incur qualifying expenditure on plant and machinery that would otherwise qualify for special rate capital allowances between 1 April 2021 and 31 March 2021. The SR allowance is a first-year allowance given at the rate of 50%.

Business cars

Special rules apply to business cars and the allowances that you can claim depend on the car's emission levels. If you incur the expenditure on or after 1 April 2021 (companies)/ 6 April 2021 (unincorporated businesses), you can claim:

- a 100% first year allowance for expenditure on new and unused zero-emission cars,
- main rate WDAs at 18% for expenditure on low emission cars with CO_2 emissions of 50g/km or less and second-hand zero-emission cars,
- and special rate WDAs at 6% on cars with CO_2 emissions in excess of 50g/km.

Capital allowances cannot be claimed for cars if a deduction for expenses is claimed using the simplified expenses system.

Balancing allowances and charges

If you sell an asset for less than it's written down value for capital allowance purposes, you may be able to claim the difference as a balancing allowance.

Conversely, if you sell an asset for more than it's written down value (the difference between it's cost and any tax allowances claimed), the difference or profit on sale may increase your tax bill.

Claims

Claims for capital allowances are optional. You do not have to make a claim and you can tailor the amount of the claim to maximise a reduction in taxes payable. This is subject to the limits set for each type of claim.

For example, it may be prudent to reduce a claim (by unincorporated businesses) to protect personal tax allowance(s).

Also, it may be that more than one option is available, and where this is the case, the challenge is to maximise the relief available. For example, a company may have the option to claim the super-deduction, the AIA, or a writing down allowance. Claiming the super-deduction will secure the highest rate of relief.

Cash basis

If you run an unincorporated business and have elected to use cash basis accounting, instead of claiming capital allowances, you can deduct the cost of any capital expenditure (unless it is of a type for which a deduction is prohibited) when working out your taxable profits. The main items which cannot be deducted are expenditure on land and buildings and cars. As long as you have not used simplified expenses to work out your deduction for running costs, you can claim capital allowances for your expenditure on business cars.

We can help

We can help you consider the best way to claim allowances and maximise any tax benefits.

Please call before you complete your acquisition(s).