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MAXIMISING CAPITAL ALLOWANCE CLAIMS FOR YOUR COMPANY

In recent years, the Capital Allowances regime has become much more generous, particularly for limited companies and expenditure on brand new items of plant and equipment. It is therefore more important than ever to make sure you make the most of the allowances available to your business, in order to mitigate the company's Corporation Tax liability.

What are Capital Allowances?

In the broadest sense, Capital Allowances are a form of tax-approved depreciation. Depreciation, as calculated under accounting standards, is not an allowable deduction in computing the profits of a trade chargeable to corporation tax (or income tax) because it is an item of a capital nature. Instead, tax relief is given by treating the Capital Allowances as an expense to be deducted when arriving at the taxable trading profits.

The most common form of Capital Allowance given to qualifying items of plant and equipment is the Annual Investment Allowance (AIA). The AIA has been in place for over 16 years and has been fixed at £1m since 1 January 2019. This amount is proportionately reduced for accounting periods of less than 12 months and effectively increased for accounting periods longer than 12 months.

The AIA is very flexible and can be claimed on most items of plant and equipment, other than cars (and a few other exceptions). For most companies with capital expenditure of a relatively modest sum, the AIA will be sufficient to obtain complete tax relief on all items of qualifying plant and equipment.

Full Expensing

In his Spring 2023 Budget speech, Chancellor Jeremy Hunt announced the introduction of 'full expensing' for qualifying capital expenditure, in addition to the AIA. But what is 'full expensing' and how does it work?

Under full expensing, limited companies can claim 100% first-year relief on qualifying new main-rate plant and machinery investments acquired on or after 1 April 2023. The policy replaces the 130% "super-deduction" that was introduced in March 2021 and which ended on 31 March 2023.

Full expensing does not have a 'cap' like the £1m AIA, so it is a very generous allowance and one which a company could benefit from significantly, particularly if its capital expenditure exceeds the AIA of £1m. Full expensing is however only available in specific circumstances.

In addition to only being available to limited companies subject to Corporation Tax (sole traders and partnerships are excluded), the plant and equipment must also be bought brand new and unused to qualify for full expensing. It also cannot be a car, given to the company as a gift, or purchased to lease to someone else.

The expenditure must also be within the 'main rate pool' of plant and machinery. The types of asset which are included within the main rate pool are numerous but some examples of these include (but are not limited to):

- machines such as computers, printers, lathes and planers.
- office equipment such as desks and chairs.
- commercial vehicles such as vans, lorries and tractors (but not cars).
- warehousing equipment such as forklift trucks, pallet trucks, shelving and stackers.
- tools such as ladders and drills.
- certain fixtures, such as kitchen and bathroom fittings and fire alarm systems, as long as in a non-residential property.

The other most common type of plant and machinery - those items in the 'special rate pool' (broadly integral features such as hot and cold water systems, electrical systems and air conditioning systems etc.) - do not qualify for full expensing, but they do for a 50% first-year allowance, subject to the same conditions that apply to full expensing. However, such items should also qualify for the AIA, so it is usually more beneficial to claim that instead.

It is also worth noting that for fully expensed assets, the company will have to bring in an immediate balancing charge equal to 100% of the disposal value. This means that if the company sold an asset for £10,000 on which they had claimed full expensing, they would be required to increase their taxable profits by £10,000 in the year of disposal, rather than deducting the proceeds from the capital allowances pool.

What other capital allowances are there?

If you have capital purchases below £1m in your accounting period, you may well choose to just claim under the AIA scheme and as mentioned above, you will also benefit more by using the AIA if you are purchasing special-rate or second-hand assets. In addition to the AIA and full expensing, there is also the annual writing-down allowance. Businesses usually use this if their expenditure on qualifying plant and machinery exceeds the AIA limit (or the expenditure doesn't qualify for AIA but is still entitled to Capital Allowances), in order to deduct a percentage of an item from their annual profits. Under current rates, 18% of the value of main rate items can be claimed with writing-down allowances each year and it's 6% for special rate expenditure.

Finally, it is also worth noting that there is a special 100% first-year allowance for very specific items of expenditure which don't necessarily qualify for full expensing or AIA. You can use this first-year allowance to claim the full cost of eligible assets incurred in your accounting period. The specific types of expenditure include:

- wholly electric cars and cars with zero CO_2 emissions (cars must be acquired new).
- plant and machinery for gas refuelling stations, such as storage tanks, pumps etc.
- gas, biogas and hydrogen refuelling equipment.

Expenditure claimed with this first-year allowance does not count towards your AIA, so businesses should make sure to make full use of each scheme available to them.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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