CHAVEREYS

tax specialists | accountants | advisers

Capital Allowances: 130% 'super-deduction' and 50% First Year Allowances

The Chancellor has announced new First Year Allowances for expenditure incurred between 1 April 2021 and 31 March 2023.

The allowances can only be claimed by **companies**. They cannot be claimed by sole traders or partnerships (including mixed partnerships with a corporate partner; although the corporate partner will qualify in respect of a trade of its own).

The allowances include a 130% super-deduction and a 50% First Year Allowance.

The 130% super-deduction is available for capital expenditure on **new** plant and machinery that ordinarily qualifies for 18% main rate capital allowances.

The 50% First Year Allowance is available for capital expenditure on new plant and machinery that ordinarily qualifies for the 6% special rate allowances (for example, integral features and long-life assets).

The super-deduction will reduce companies' tax bills by up to 24.7p per £1 invested versus 19p per £1 if the Annual Investment Allowance were to be claimed on expenditure instead (subject to the AIA limit – currently £1,000,000).

Qualification requirements (for both allowances)

- Available for companies only.
- Available for capital expenditure on plant and machinery incurred between 1 April 2021 and 31 March 2023.
- Contracts must be entered into after 3 March 2021.

Certain expenditure is **excluded:**

- Cars
- Second hand or used items
- Equipment used in a leasing trade

There is no restriction on the amount of expenditure on which the super-deduction or First Year Allowance can be claimed (unlike for the existing Annual Investment Allowance 'AIA').

Chargeable period spanning 1 April 2023

Where a company incurs expenditure qualifying for a super-deduction in a chargeable period that ends on or after 1 April 2023, it is necessary to calculate the number of days in the chargeable period before 1 April 2023 and divide this by the total number of days in the period.

This fraction should then be multiplied by 30% and added to 100% to arrive at the super-deduction available for the period.

Disposal before 1 April 2023 of asset qualifying for super-deduction

On disposal of an asset for which the super-deduction has been claimed, the normal disposal value is increased by 30% and a balancing charge will arise in the period of disposal up until 31 March 2023. For disposals made in an accounting period that straddles 1 April 2023 there will be an apportionment of the multiplying factor of 130% according to the number of days in the accounting period prior to 1 April 2023.

The Corporation Tax rate is due to increase to 25% with effect from 1 April 2023 and as such, no further apportionment would be required as the rate of tax is equivalent.

Corporation Tax rates

The main rate of Corporation Tax remains 19% for financial years 2020/21, 2021/22 and 2022/23.

From 1 April 2023, the main rate of Corporation Tax is due to increase to 25% for companies with profits over £250,000.

Companies with profits of £50,000 or less will continue to have profits taxed at 19%.

If profits fall between £50,000 and £250,000, those profits will be taxed at 25% but marginal relief will be available.

However, we see the return of the old associated companies rules whereby companies under common control or those that are controlled by another company will be classed as 'associated companies' for marginal relief purposes and the profit limits divided according to the number of associated companies.

Illustrations:

Expenditure incurred between 1 April 2021 and 31 March 2023

- For each £1 spent on plant and machinery qualifying for 'main rate' capital allowances there is a tax deduction of £1.30.
- Tax relief on each £1 spent is therefore: 130% * 19% = 24.7%

Chargeable period spanning 1 April 2023

Company A has a December year end.

The company acquires a new machine for £100,000 on 1 January 2023 and meets all relevant conditions for claiming the super-deduction.

The acquisition of the machine was made in the year ended 31 December 2023. As the expenditure was incurred in a period spanning 1 April 2023, an apportioned rate must be applied such that the allowance is 130% for the period before 1 April 2023 and 100% thereafter.

The apportionment is calculated on a daily basis:

1 January 2023 – 31 March 2023	90 days
1 January 2023 – 31 December 2023	365 days

The applicable rate is calculated as follows:

90/365 * 30% = 7.4%

7.4% + 100% = 107.4%

Therefore the super-deduction that can be claimed is: 107.4% * £100,000 = £107,400

This gives an effective rate of tax relief on the 'super-deduction' of 25.2%. This effective rate will vary from 24.5% to 25.3% dependent upon the year end of the company in the straddling period.

If expenditure on plant and machinery is incurred after 1 April 2023 - What tax relief is obtained if expenditure is delayed?

- The main rate of Corporation Tax for companies with profits over £250,000 will be 25%.
- Where Annual Investment Allowance is available (subject to a limit of £200,000 of expenditure per annum – see below), for each £1 invested in plant and machinery a £1 deduction is obtained.
- Tax relief on each £1 spent is therefore: 1 * 25% = 25%

So the tax relief available on expenditure incurred prior to 1 April 2023 is broadly similar to the relief that will obtained after this date where AIA is claimed instead.

Annual Investment Allowance

The Annual Investment Allowance ('AIA') gives most businesses a 100% allowance for capital expenditure on plant and machinery up to a specified amount. The AIA limit applies for a 12 month accounting period.

From 1 January 2019, the AIA limit was temporarily extended for 2 years from £200,000 to £1,000,000. This has been extended until 31 December 2021.

The AIA limit will now revert to £200,000 with effect from 1 January 2022.

Chavereys Commentary

The super-deduction is, on the face of it, a classic piece of Rishi magic. This will be particularly attractive if CT rates do not increase in two years' time as could be the case if the economy fails to improve at the desired speed and the Tory back benchers have their way. Two years is a long time in politics!

The con here is the inevitable inflationary impact this will have on prices; suppliers of machinery and IT equipment must be licking their lips!

In planning terms you should focus on eligibility and those subtle capex additions that may ordinarily be ignored. Particular scrutiny should be applied to the constituent elements of a material capital project, as the line between a super-deduction purchase and a First Year Allowance purchase is often blurred. Those members of producer organisations may want to rethink their plans.

As ever we are there to help and guide; please speak to your usual Chavereys contact.