Capital Allowances – Budget 2021
Super Deduction and 50% First Year Allowances

The March 2021 Budget saw the introduction of temporary increased tax relief for expenditure on certain plant and machinery purchases made between 1 April 2021 and 31 March 2023. In order to qualify for these temporary allowances, the expenditure must be incurred after 1 April and cannot have been contracted before 3 March.

The new allowances apply only to **companies** within the charge to Corporation Tax that incur expenditure on **new and unused** plant and machinery.

The following are specifically excluded from the new regime:

- Assets acquired in the period in which the trade is permanently discontinued;
- Cars;
- Leasing assets (including property companies/landlords);
- Existing assets brought into the business;
- Tax avoidance arrangements

Long life assets, those with a useful economic life of at least 25 years, will not be eligible for the super deduction, but will qualify for the 50% first year allowance (FYA).

Second-hand assets and purchases by unincorporated businesses will continue to be eligible for the Annual Investment Allowance (AIA), the annual limit for which is currently set at £1,000,000 until 31 December 2021, after which it is due to revert to its normal level of £200,000. Please remember the transitional rules if your accounting period straddles this date.

Super Deduction

The super deduction provides an immediate deduction from taxable profits equal to 130% of qualifying expenditure. The assets that will be covered by this new allowance are those that would normally fall within the main (or general) capital allowances pool, which would previously have attracted writing down allowances (WDA) at 18%.

50% First Year Allowances

The 50% FYA provides an immediate deduction from taxable profits equal to 50% of qualifying expenditure. The assets that will be covered by this new allowance are those that would normally fall within the special rate pool, which would previously have attracted writing down allowances at 6%.

The remaining 50% of expenditure not covered by this allowance will either be covered by any available AIA or the 6% WDA.

The above rates are proportionally adjusted for accounting periods straddling 1 April 2023.

Disposal of assets

Record keeping under this new regime becomes extremely important, particularly when it comes to the future disposal of an asset on which the super-deduction or 50% FYA has been claimed.

In both cases, the assets will need to be kept separately, such that on sale, the disposal proceeds will give rise to a balancing charge (taxable profits), instead of being deducted from the respective capital allowances pools.

Furthermore, in light of the increase to the main rate of Corporation Tax from 19% to 25% scheduled from 1 April 2023, when an asset that was the subject of a super deduction claim is sold, the disposal proceeds may need to be scaled up by a factor of up to 1.3, depending on the date of disposal, to reflect the additional tax relief claimed on acquisition.

Careful consideration should be given before claiming the super-deduction, particularly for assets that may only be held for a relatively short period and are likely to retain their value.

Likewise, it is important to think about the timing of the asset purchase, as accelerating expenditure to take advantage of the super deduction may not result in the additional tax relief that is expected…

Illustration

	Purchase pre 1 April 2023 utilising super deduction	**Purchase post 31 March 2023 at new tax rate**
Qualifying purchase	100,000	100,000
Super deduction (100,000 x 130%)	130,000	n/a
AIA	n/a	100,000
Tax relief at 19% / 25%	**24,700**	**25,000**
Resale value	30,000	30,000
Proceeds for tax purposes*	30,000	30,000
Tax liability at 25%	**7,500**	**7,500**
Overall tax relief	**17,200**	**17,500**

*Assumes disposal event occurs in a chargeable period commencing after 1 April 2023

As can be seen from the illustration above, the initial tax relief available on the purchase of a qualifying asset utilising the super deduction is very similar to that if you were to utilise the AIA on the same asset from 1 April 2023, when the main rate of Corporation Tax is due to increase. In fact, a claim under the AIA in April 2023 will actually save slightly more tax overall than a claim under the super deduction.

Further consideration

Plant and machinery expenditure that is incurred under a Hire Purchase or similar contract must meet additional conditions to qualify for the super deduction and special rate relief.

In conclusion, the super deduction and 50% FYA provide very valuable relief to companies spending large amounts on plant & machinery and making full use of their AIA entitlement, but for many businesses it will not be a reason to accelerate expenditure that they would not otherwise have been making. For advice regarding the timing of capital expenditure and whether a claim under the super deduction is right for your business, please speak to your usual Ensors contact.

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