Mercer & Hole

ALLOWANCES FOR CAPITAL EXPENDITURE ON ASSETS

Businesses that incur capital expenditure on assets normally put a depreciation charge through the accounts to reflect the expense incurred for the use of these assets over time. Depreciation is generally not allowed for tax purposes and so to allow for some tax relief on qualifying capital expenditure, a scheme for specified allowances is available.

There are a number of different categories and allowances available for different assets as follows:

Structures and Business Allowance (SBA)

Capital expenditure incurred on new commercial buildings and structures, but not demolition or land costs, under contracts entered into on or after 29 October 2018 may qualify for SBA. The relief was initially given at 2% per annum on a straight line basis but increases to 3% from 1 April 2020 for corporation tax and from 6 April 2020 for income tax.

Expenditure on contaminated land and buildings

Underlying expenditure is given tax relief at up to 150% of cost. The costs qualifying for the relief, which is available only to companies, have a relatively wide definition including removal of asbestos and the removal of Japanese knotweed. If the company makes a loss it is possible to claim a tax credit equal to 16% of the relief claimed.

As with most qualifying expenditure it may be possible additionally to allocate a proportion of other costs for this relief on a pro rata basis e.g. architects' fees and preliminaries.

Enterprise Zones

Expenditure, by companies only, for a period of 8 years (commencing on the date an area becomes designated as an enterprise zone) on new and unused plant and machinery for use primarily in such designated Enterprise Zones qualifies for 100% allowances.

Expenditure must be incurred for the purposes of a new or expanding business carried on by the company; must not be replacement expenditure and is limited to €125million per single investment project. A list of Enterprise Zones can be found at http://enterprisezones.communities.gov.uk/.

This 100% relief is given independently of the Annual Investment Allowance (AIA).

Enhanced Capital Allowances

100% relief is given on 'green' assets including energy and water efficiency, such as lighting, combined heat and power units, and very low emission cars – that have been registered as qualifying; for a full list visit www.gov.uk/guidance/energy-technology-list. Loss making companies that make such claims can claim a tax rebate on expenditure.

The relief will cease from April 2020 other than for vehicle charging points which continues until 2023.

This relief is given independently of the AIA.

It is necessary to check registration of the assets in advance as once expenditure is incurred it is too late to obtain registration.

Research and Development (R&D)

Capital costs incurred in connection with R&D; not only plant and machinery but also buildings, cars, etc, can qualify for 100% allowances.

Again, this relief is given independently to the AIA.

Annual Investment Allowance (AIA)

This is a capped 100% allowance for plant and machinery (but excluding cars). The allocation of relief to different categories of assets is at the business' discretion, however, it is normally prudent to allocate the AIA against those assets which are otherwise entitled to the lowest rate of annual allowances, e.g. integral features (see overleaf).

From 1 January 2019 the allowance was increased to £1 million (previously £200,000). This increase is for a temporary two-year period.

The allowance has to be shared between groups or related companies and businesses and is reduced for periods of less than 12 months.

An AIA cannot be claimed on an asset acquired from a connected person or at all by partnerships with any members that are not individuals.

General pool

This covers machinery and any plant that is not an integral feature (as below). The general pool qualifies for Writing Down Allowances ("WDAs") at 18% on a reducing balance basis.

Short life assets

These are assets that would normally fall within the general pool but are expected to be sold or scrapped within the eight years following the year of acquisition. These assets may be elected to be kept in single asset pools. Then if the proceeds of disposal within the 8-year period are less than the tax written down value, a balancing allowance is given. This can significantly advance tax relief.

Long life assets

Assets with an expected useful economic life of at least 25 years may be classed as long life assets and qualify for reduced WDAs of only 6% (8% prior to April 2009) again on a reducing balance basis.

Integral features pool

This is a pool, with WDAs at 6% (8% prior to April 2019) on a reducing balance basis that includes assets in the following list:

- Electrical systems (including lighting systems);
- Cold water systems;
- Insulation;
- Lifts, escalators and moving walkways;
- Space or water heating systems, powered systems of ventilation, air cooling or air purification and any floor or ceiling comprised in such systems;
- External solar shading;
- Active facades.

Toilet and kitchen facilities are not included in the integral features list so, therefore, potentially qualify at the 18% rate.

Integral Features in Commercial Properties

In this possible in certain circumstances to claim tax depreciation relief for Integral Features that exist within the structure of a building. Whether you are an individual taxpayer or a company, valuable tax relief may be available to you if you are either an investor or an owner occupier of commercial property. Should relief be due, you will be entitled to an immediate repayment of some of the tax you have previously paid. If you have any doubts, contact us rather than assuming you will not benefit.

London
020 7236 2601
london@mercerhole.co.uk

St Albans
01727 869141
stalbans@mercerhole.co.uk

Rickmansworth
01923 771010
rickmansworth@mercerhole.co.uk

Milton Keynes
01908 605552
miltonkeynes@mercerhole.co.uk