
SUPER DEDUCTION

Super deduction is indeed exciting news for businesses. At first sight, it looks incredibly attractive. However, there is further consideration needed when you look closely at the numbers.

There are specific conditions which must be met in order for expenditure on plant or machinery to qualify for the super deduction, which is a first-year allowance. Some of the important conditions are:

- a. The expenditure is incurred on or after 1 April 2021 but before 1 April 2023;
- b. it is incurred by a company within the charge to Corporation Tax, (not apply to sole trader or partnership);
- c. the plant or machinery is unused and not second-hand; and
- d. the expenditure is not within any of the eight general exclusions in section 46(2) of the Capital Allowance Act 2001, which include exclusions for expenditure on cars and on the provision of plant and machinery for leasing.

Super deduction is in addition to annual investment allowance (AIA) with no spending cap. It is called a first-year allowance, and so has no limit, unlike AIA. Therefore, it is beneficial to those companies who want to spend more than £1m or £200,000 post 1 April 2013 so that they can bring forward their investment plan and tax advantage with no capped super deduction.

However, those companies that do not spend more than £200,000, there is no advantage for bringing the expenditure forward if 25% corporation tax will go ahead from 1 April 2023. The 130% super deduction, combined with the current corporation tax of 19%, means that for every £100,000 you spend, you get £24,700 back in tax reductions (£130,000 @ 19%). If you wait two years and have to pay corporation tax at 25% with no super-deduction, a £100,000 expenditure would allow for a tax reduction equalling £25,000.

So, despite the excitement around super deduction, when you run the numbers it's much of a muchness; anyone investing below £200,000 may well be better to continue with their current investment plans.

If companies change their annual reference date to 30/04/2021, 31/05/2021 or 30/06/2021, super deduction will only be available to those eligible investments incurred on or after 1 April 2021.

This Mercer & Hole Briefing Note is a short selection of items extracted from complex legislation. Further specific advice on any matters referred to must be taken at all times. The information is given for general guidance only and publication is without responsibility for loss occasioned to any person acting or refraining from acting as a result of the information given. No part of this publication may be reproduced without the prior permission of Mercer & Hole.

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