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 increased 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 https://enterprisezones.communities.gov.uk.

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

Investment Zones

The government is currently in discussion with 38 local authorities in England to establish investment zones that are designed to encourage rapid development and business investment. These zones will be specific geographical areas within counties to help boost growth in areas that most need it including the West Midlands, the Tees Valley and Somerset.

The intention is for these specific investment zones to benefit from the following time-limited tax benefits. These include:

- 100% first year enhanced capital allowance relief for plant and machinery
- Enhanced Structures and Buildings Allowance relief of 20% per annum

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 to 31 March 2023 the allowance is £1 million. It was due to reduce to £200,000 from 1 April 2023 but it is now proposed that the £1 million limit will be maintained indefinitely.

The allowance must 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.

Super-deduction

This has been introduced for certain expenditure incurred on or after 1 April 2021 but before 1 April 2023 although the September mini budget announced that this will be reviewed due to the proposed abolition of the increase in corporation tax rates. The super-deduction is covered in a separate Business Brief.

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, please contact us for our view.

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