Briefing Note

Mercer & Hole

SUPER DEDUCTION

From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets can claim a 130% super-deduction capital allowance on qualifying plant and machinery investments

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, (does 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.

The 130% super-deduction is available for qualifying expenditure on the provision of main rate plant and machinery (super-deduction expenditure). In particular this means it is not available for assets that are long-life assets or integrated fixtures. There is though a super-deduction of 50% available for those assets.

Please note if a company has an accounting period that crosses over 1 April 2023 the super-deduction is pro-rata reduced. Thus, for an accounting period ended 31 December 2023 the super-deduction is not 130% but only 107.5%. Let us say by way of illustration, a company has a 31 December year end. If it incurs the expenditure in December 2022, it will have a super-deduction of 130%. If it incurs the expenditure in March 2023, it will have a super-deduction of 107.5%. if it in incurs it in April 2023 it will have no super-deduction.

A significant advantage of the super-deduction over the Annual Investment Allowance ('AIA') is that unlike the AIA there is no limit to the amount of capital expenditure that qualifies. The current limit for AIA is £1 million. Generally, it will be more tax efficient to claim a 100% AIA on long life assets and integral fixtures than claim a first year allowance of 50%. However, where it is possible to claim a 130% super-deduction this will be preferable to an AIA claim.

However, one also needs to consider the different treatment on the future disposal of the assets. Where assets that have been subject to the 130% super-deduction are sold then there is an automatic balancing charge. The proceeds are not simply credited to the capital allowances pool as is the case with AIA.

Therefore depending on the precise facts on the disposal of the asset there could be a larger balancing charge than with AIA.

It should be noted that because of the rules for the disposal of the assets on which the super-deduction has been claimed it is necessary to track the asset up to the date of sale.

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