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Capital Allowances

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Today's presenters

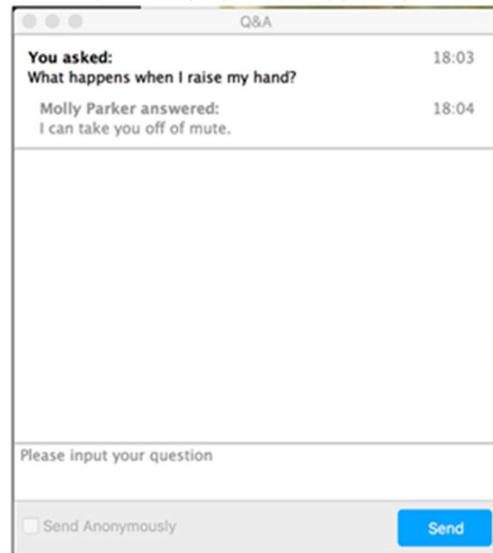


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Ask a question



The screenshot shows a window titled "Q&A" with a light gray background. At the top, there are three small circles (macOS window controls) and the title "Q&A". Below this, the text "You asked:" is followed by the question "What happens when I raise my hand?" and the time "18:03". Underneath, "Molly Parker answered:" is followed by the answer "I can take you off of mute." and the time "18:04". A horizontal line separates the question and answer from the input area. The input area contains the placeholder text "Please input your question". At the bottom left, there is a checkbox labeled "Send Anonymously". At the bottom right, there is a blue button labeled "Send".

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type in your question and click **send**.

Note. If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration to the left.



CAPITAL ALLOWANCES

The new 'super' deduction &
SR allowance

Steve Watts

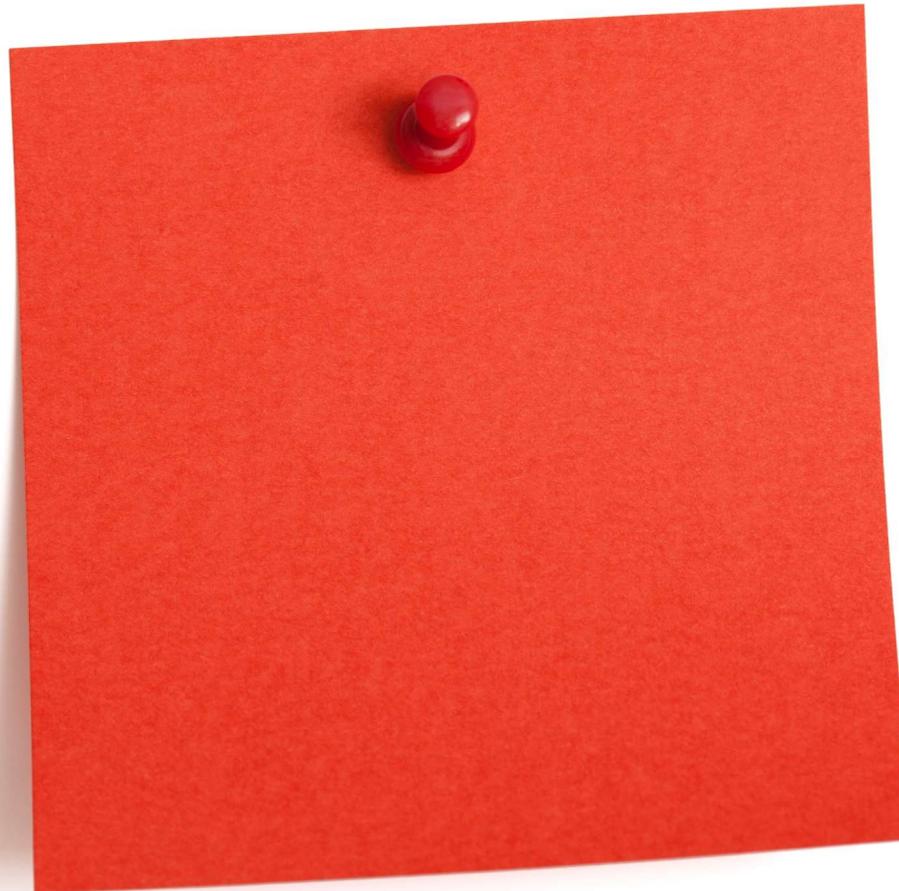


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AGENDA

- Introduction to the new first year allowances
- Practical aspects of the FYAs



NEW 'SUPER' TEMPORARY FIRST YEAR ALLOWANCES

A welcome surprise from Budget 2021

The 'Super Deduction'

A 130% first year allowance for main pool plant and machinery

The 'SR allowance'

A 50% first year allowance for special rate pool plant and machinery

Both are temporary - 1 April 2021 to 31 March 2023

In addition to the Annual Investment Allowance (AIA) - £1m until 31 December 2021

Are **uncapped** - unlike the AIA

THE DETAIL BEHIND THE ‘SUPER’ FYAS

Corporation tax payers only

Contracts entered after 3 March 2021

Expenditure after 1 April 2021

‘New and unused’ plant and machinery

General FYA exclusions - no cars or leased plant and machinery

Landlords saved - carve out for leases of ‘background plant’

Hire purchase and similar contracts

Wide anti-avoidance - big scope for HMRC investigations



CAPITAL ALLOWANCES REGIME FROM APRIL 2021 ONWARDS

ALLOWANCE OR RELIEF	2019-20	2020-21	2021-22
Main pool plant and machinery (writing down allowance) (PMA)	18%	18%	18%
<i>Super Deduction (first year allowance) (PMA)</i>	N/A	N/A	130%
Special rate pool plant and machinery (writing down allowance) (PMA)	6%	6%	6%
<i>SR Allowance (first year allowance) (PMA)</i>	N/A	N/A	50%
Annual Investment Allowance (Set threshold of PMA)	£1,000,000	£1,000,000	£800,000
Freeport Enhanced Plant and Machinery Allowances (PMA)	N/A	N/A	100%
Structures and Buildings Allowance (straight line allowance) (SBA)	2%	3%	3%
Freeport Enhanced Structures and Buildings Allowance (SBA)	N/A	N/A	10%
Research & Development Allowances (first year allowance) (PMA)	100%	100%	100%
Enterprise Zone Allowances (first year allowance) (EZA)	100%	100%	100%
Remediation of contaminated land tax relief (LRR)	150%	150%	150%
Land and interests in land (ineligible)	0%	0%	0%

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PRACTICAL ASPECTS OF THE FYAS

Greater level of claim choice; model for which claim is right

Interaction of 50% SR allowance and AIA threshold

Dates of contracts for P&M and fixtures

Need to separately track and claim expenditure

Group property companies

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PRACTICAL ASPECTS OF THE FYAS

Leasing and hire or the provision of services

Cars excluded but don't overlook other FYAs

Property transactions and elections

Corporate share acquisitions

Need to separately track and claim expenditure

Implications of a disposal

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THE STING IN THE TAIL: CLAWBACK PROVISIONS

Automatic balancing charge - taxed like profit

Disposal value is charged at corporation tax rate in the period of disposal

Disposal values are determined in the normal way

DISPOSAL BEFORE 1 APRIL 2023

- ▶ Super deduction - the 'relevant proportion' of the disposal value is multiplied by the 'relevant factor' of 1.3
- ▶ If year end straddles 1 April 2023, the relevant factor of 1.3 is reduced by apportionment of days before/after
- ▶ SR allowance - the 'relevant proportion' of the disposal value is a balancing charge (no relevant factor)

DISPOSAL AFTER 1 APRIL 2023

- ▶ Super deduction - No relevant factor is applied any longer
- ▶ SR allowance - no change to calculation of disposal value or balancing charge
- ▶ After 1 April 2023, the balancing charge will be taxed at 25%

SUPER DEDUCTION - EXAMPLE 1

Super Store Ltd acquires an asset qualifying for main pool P&M on 1 May 2021 for £1m. It disposes of the asset for £600,000 on 31 October 2022. Super Store Limited has a 31 December year end.

ALLOWANCE OR RELIEF	£' 000	£' 000
Capital expenditure on main pool plant and machinery	1,000	
First year allowance at 130%	1,300	
Tax deduction at 19% corporation tax rate		247
Disposal proceeds of main pool plant and machinery	(600)	
Disposal factor at 1.3	(780)	
Tax charge at 19% corporation tax rate		(148)
Net tax deduction		99

SUPER DEDUCTION - EXAMPLE 2

Super Store Ltd acquires an asset qualifying for main pool P&M on 1 May 2021 for £1m. It disposes of the asset for £600,000 on 31 October 2023. Super Store Limited has a 31 December year end.

ALLOWANCE OR RELIEF	£' 000	£' 000
Capital expenditure on main pool plant and machinery	1,000	
First year allowance at 130%	1,300	
Tax deduction at 19% corporation tax rate		247
Disposal proceeds of main pool plant and machinery	(600)	
Disposal factor at $1 + (90/365 \times 0.30)$	(644)	
Tax charge at $(19\% \times 90/365 + 25\% \times 275/365 = 23.5\%)$		(151)
Net tax deduction		96

SUPER DEDUCTION - EXAMPLE 3

Super Store Ltd acquires an asset qualifying for main pool P&M on 1 May 2021 for £1m. It disposes of the asset for £600,000 on 31 October 2024. Super Store Limited has a 31 December year end.

ALLOWANCE OR RELIEF	£' 000	£' 000
Capital expenditure on main pool plant and machinery	1,000	
First year allowance at 130%	1,300	
Tax deduction at 19% corporation tax rate		247
Disposal proceeds of main pool plant and machinery	(600)	
Tax charge at 25%		(150)
Net tax deduction		97



FINAL SUMMARY

Unprecedented accelerated allowances on investments

Claim the FYAs alongside other allowances (AIA still exists!)

Consider clawback before a claim is made

Track, track and track again - don't lose FYA claims

Be wary of arrangements - HMRC powers wide reaching



*Any
questions?*

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