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Attractive New UK Corporate Tax Allowances: For Investment In Plant And Machinery

By **Paul Webb**, 20th April 2021

Background

With the advent of Brexit, the UK Government has been taking a number of steps to demonstrate it is definitely 'open for business' and to position itself as an attractive location for new and expanding companies.

In the Budget on 3 March 2021, the Chancellor announced two new first year allowances:

- A superdeduction of 130% on qualifying plant and machinery;
- A 50% first year allowance on qualifying special rate assets.

Who Qualifies for the Relief?

To qualify for either allowance, the expenditure needs to be made by a company within the charge to UK Corporation Tax.

As such, sole traders and partnerships do not qualify.

Which Expenditure Qualifies for the Relief?

The expenditure must be on new and unused items: second hand purchases will not qualify.

The categories of qualifying expenditure for the 130% superdeduction are very broad and include:

- Plant;
- Machinery;
- Furniture;
- Computer equipment;
- Software;
- Vans (cars do not qualify).

Purchases qualifying for the 50% deduction, are those which would normally be treated as ‘special rate’ assets with a lower rate of capital allowances:

- Air-conditioning and air-cooling systems;
- Hot and cold-water systems;
- Electrical systems, including lighting systems;
- External solar shading;
- Lifts, escalators and moving walkways;
- Space and water heating systems;
- Thermal insulation of buildings.

When Does Expenditure Need to be Incurred?

The expenditure must be made between 1 April 2021 and 31 March 2023.

The contract cannot have been entered into, prior to 3rd March 2021, when the superdeduction and 50% first year allowance were announced.

Hire purchase contracts are included as qualifying expenditure, provided that the asset is in use by the year end.

What About the Annual Investment Allowance?

The Annual Investment Allowance (“AIA”) currently gives a 100% deduction on expenditure up to £1m. It has recently been confirmed that this limit will remain until 31 December 2021.

It would therefore make most sense to claim the superdeduction on expenditure qualifying for the130% deduction, and use AIA for special rate expenditure. The 50% first year allowance could then be claimed on expenditure in the special rate pool above £1m.

What if the Asset is Sold?

The rules are complex but, broadly speaking, if the superdeduction is claimed and the asset is then sold before 31 March 2023, a balancing charge will be payable in order for the enhanced relief to be clawed back.

Similar rules apply to the 50% first year allowance.

What Action Points Might There be for the Company?

Where the company capitalisation policy means that certain assets are not capitalised, this may be worth revisiting.

It might be beneficial to capitalise all assets in order that the 130% superdeduction can be claimed, rather than a100% P&L deduction.

Additional Information

For additional information regarding how these new allowances can be beneficial to a company established in England or Wales, please speak to Paul Webb or Sarah Gardner, in the UK office: advice.uk@dixcart.com.