

Boost to capital allowances

Perhaps the most innovative give-away in the recent budget was the new super-deduction for investment expenditure.

Companies can claim 130% capital allowances on qualifying plant and machinery investments for expenditure from 1 April 2021 until the end of March 2023. This means that for every £1,000 a company invests, its tax is reduced by £247, equating to relief at nearly 25%. Without the super-deduction, this investment would have reduced the company's tax by only £190.

The 130% rate is only available for investment in assets that qualify for main rate capital allowances. A new 50% first-year allowance (FYA) is available for companies that purchase qualifying special rate assets, such as integral features of buildings or long-life assets – those with an expected useful economic life of at least 25 years. For both allowances the assets bought must be new and unused. Plant and machinery used for leasing, cars and a few other assets do not qualify. The allowances are only available for companies.

The super-deduction looks generous but for many companies it will not be worthwhile bringing forward investment plans just to qualify for them. This is because the main rate of corporation tax will rise to 25% from 1 April 2023 for companies with profits of £250,000 and over. The deduction will then give rise to tax relief of 25%.

The super-deduction has no upper limit on qualifying expenditure – unlike the annual investment allowance (AIA) where the limit is currently £1 million – a temporary increase that has been extended to 31 December 2021. The cap may then revert to £200,000. This potential reduction in the AIA is another factor to consider in timing plant and machinery purchases. The AIA is available to unincorporated businesses as well as companies, and the assets bought do not have to be new.



There will be grey areas where the legislation that maps out the do's and don'ts to claiming this relief will not allow the 130% deduction. However, this is still a significant incentive to invest if your company is likely to be profitable from 1 April 2021. To ensure that any significant investment you make will qualify, contact your accountant who can consider the likelihood of a successful claim.

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