

CAPITAL ALLOWANCES

When businesses incur capital expenditure – on equipment, buildings and similar assets – the expenditure is not necessarily deductible against tax immediately. There may be no relief, or it may be given over a period of years.

What is Capital Expenditure

Capital Expenditure is expenditure for the long term benefit of the business, normally the acquisition of an asset, eg equipment, premises, a licence or similar.

Capital Allowances versus Depreciation

In most sets of business accounts, depreciation is charged. Depreciation is an accounting adjustment to write an asset off over its life.

Depreciation, except in some esoteric cases, its not a tax allowable expense. However Capital Allowances, a form of tax approved depreciation are given instead. Why? Well, Capital Allowances allow the Government to control the depreciation rates used, whereas otherwise it would be a free for all.

Business Premises

In most cases there is no relief available on the purchase/construction of business premises (freehold / long leasehold). However interest on a loan to finance them may be deductible.

Equipment affixed to a building may be eligible for Capital Allowances as plant and machinery (see below) if it is linked to the trade carried on rather than the building.

Historically Industrial Buildings Allowances were are available on some freehold/long leasehold buildings, generally:

- where used for manufacturing or processing goods
- storage of goods for manufacture or processing
- hotels with 10 letting rooms or more
- buildings for a transport undertaking

Shops, showrooms, offices and smaller hotels are excluded.

Agricultural Buildings Allowances are very similar to IBAs and are also given at 4% flat per annum.

However IBAs and ABAs are being phased out over a four year period up to 2011.

Plant and Machinery

These are the commonest allowances and most small businesses will be claiming them.

From 2008/09 onwards a £50,000 Annual Investment Allowance exists. The first £50,000 of expenditure on:

- vans } NB separate rules
- motor cycles } for cars
- computers
- office furniture and equipment
- factory machinery
- tools (although after a tool kit has been established small additions are often taken direct to the businesses profit and loss account as “loose tools”).
- integral features to a building (see below)

is expensed in full. An excess is added to a pool, which will also include unrelieved expenditure from earlier periods, and relieved at 20% per annum reducing balance.

Integral features are:

- Electrical / lighting systems
- Cold water systems
- Space & water heating, and air conditioning
- Lifts, escalators and moving walkways
- External solar shading
- Active facades

Balancing allowances and charges are available when all the assets in a pool cease to exist. In terms of the general pool that would only be if the business was sold or ceased to trade. Any difference between the pool value and the disposal value is treated as a balancing allowance – if there are further allowances due – or a balancing charge if there is a profit over the pool value.

Cars

Cars are excluded from the AIA and are held in a separate pool.

For 2007/08 and previous years the writing down allowance rate was 25%. 100% first year allowances applied to new cars with emissions of less than 120g/km.

For 2008/09 the writing down allowance becomes 20%. 100% first year allowances applies to new cars with emissions of less than 110g/km. NB the £50,000 Annual Investment Limit for plant and equipment from 008/09 onwards does not extend to cars. It does extend to vans / motor cycles.

From 1 April 2009, the writing down allowance will depend on emissions. The present proposals are:

- cars emitting less than 110g/km – 100% first year allowance
- cars emitting over 110g/km and less than 160g/km, 20% annual writing down allowance
- cars emitting over 160g/km 10% writing down allowance

Goodwill

Goodwill, although a capital asset, does not achieve any capital allowance.

For a sole trader, partnership or LLP there are no allowances at all.

For a limited company certain goodwill acquisitions can be subjected to a form of capital allowance under special rules for intangible assets.

Know How, Patent Rights, Licences

There are special Capital Allowance rules for such assets, but they are outside the scope of this brief guide.

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