

The New Capital Allowances Regime

Capital allowances provide a form of tax depreciation on assets bought and used in a business. The cost of the asset is written down at a standard rate for all taxpayers on a reducing balance basis. The amount of tax depreciation per annum is called a writing down allowance and reduces taxable profits.

From April 2008 the rates of writing down allowances were reduced and a new category of allowances for integral features and an Annual Investment Allowance were introduced.



Plant and Machinery

From April 2008 all plant and machinery purchased for use in a business by a sole trader, partnership or company were written down for tax purposes at 20% per annum on a reducing balance basis. This is a reduction from the previous rate of 25% per annum.

For accounting periods that span 1 April 2008 (6 April 2008 for income tax), a composite rate of between 20% and 25% should be used to write down plant and machinery.

The scope of expenditure qualifying as plant and machinery has been slightly reduced due to the introduction of a further category of eligible expenditure called "integral features". For these purposes where this type of expenditure used to qualify for plant

and machinery writing down allowances it will now qualify for allowances under the integral features regime.

This is bad news for taxpayers as the reduction from 25% to 20% will mean equipment will effectively be fully written down within 9 years as opposed to the previous 7 years meaning tax relief is spread over a longer period.



Cars

Where a business incurs expenditure on cars with emissions in excess of 160g/km after 1st April 2009 for businesses and 5th April 2009 for individuals, those assets will form part of a new special 10% rate pool and attract capital allowances at 10% per annum only.



Expenditure on such cars prior to 1st April 2009 for companies and 6th April 2009 for individuals will continue to be subject to the "old" expensive car rules for a transitional period of 5 years.

In respect of leased cars which have emissions in excess of 160g/km, new rules also apply from 1st April 2009 for companies and 6th April 2009 for individuals. Any new leases entered into after these dates, where the cars have emissions in excess of 160g/km, will be subject to new special rules whereby there will be a flat rate of disallowance of 15% in respect of leasing payments. New car leases where the cars have emissions of less than 160g/km will suffer no disallowance of leasing charges.

These new rules are complex and advice must be sought before re-aligning car fleet vehicles to meet the new emission limits.

Integral Features

From 1 April 2008, expenditure on the following capital items qualified for a 10% annual writing down allowance on a reducing balance basis:

- Electrical systems
- Cold water systems
- Space or water heating systems, powered systems of ventilation, air cooling or purification and any floor or ceiling comprised in such systems
- Lifts, escalators and moving walkways
- External solar shading

• Active facades
A number of these items of expenditure may previously have qualified for the 25% plant and machinery writing down allowances, whilst some will not have qualified for capital allowances. However since April 2008 the maximum allowance that will be available is 10% per annum. This is mixed news for taxpayers as additional relief may be available for previously non-qualifying items, whilst some items previously qualifying as plant and machinery now only receive allowances as integral features.

Annual Investment Allowance (AIA)



Since 1 April 2008 (6 April 2008 for income tax), each sole trader, partnership or company received an Annual Investment Allowance of £50,000. The effect of the AIA is to make the first £50,000 of expenditure on plant and machinery (excluding cars) or integral features fully deductible for tax purposes.

For accounting periods that span 1 April 2008 (6 April 2008 for income tax), the AIA will be time apportioned.

This is a significant concession to most smaller businesses where annual spend on capital equipment will be less than the annual AIA threshold, providing relief earlier than claiming the usual plant and machinery or integral features writing down allowances.

The taxpayer also has the right to choose against which type of expenditure the AIA is allocated. Therefore where a taxpayer has spent in excess of £50,000 on a mixture of plant and machinery and integral features the AIA should be allocated against the integral features spend first as this receives a lower rate of writing down allowance at 10%, rather than against plant and machinery where the rate of writing down allowance is 20%.

Where a taxpayer has one or more related businesses, or a company is part of a group of companies, only one AIA will be available. It is possible for the taxpayer to choose where to use the full AIA, for example all in one company where a group of companies are involved.

The rules surrounding the meaning of "related" for tax purposes are complex and professional advice should be sought before any decision is made as to whether more than one AIA may be available, if the taxpayer has a number of businesses.

If the AIA has been claimed against certain items which are then disposed of, the proceeds received in respect of these items will still be set against the general capital allowance pool, despite the fact the initial cost was never added to the pool on purchase because of the AIA

Small Plant and Machinery Pools

For accounting periods beginning on or after 1 April 2008 (or on or after 6 April 2008 for income tax) small balances on plant and machinery pools or integral features pools can be written off against taxable profits as long as the balance remaining is less than £1,000.

It is hoped that this change will reduce the administrative burden on smaller and micro businesses of carrying forward small pool balances and claiming ever smaller allowances as the pools decrease over time.

Industrial Buildings

The writing down allowances in respect of industrial buildings are being phased out since 1 April 2008. The allowances were originally available at a rate of 4% per annum for 25 years in respect of industrial buildings.

The rate will effectively fall in successive 1 percentage point stages to 3% from April 2008, 2% from April 2009, 1% from April 2010, with full abolition from April 2011. Where an accounting period straddles the April dates for the reductions, the rates will be time apportioned.

From April 2011, no further allowances will be available in respect of industrial buildings.



Other Assets

There have been additional changes to the capital allowances available in respect of short life and long life assets, but these

changes are outside the scope of this helpsheet.

For further advice and assistance

Monahans specialist Tax Consultancy department can assist you with all aspects of capital allowances planning and making the relevant claims for allowances.

Please contact **Dominic Bourquin** on **01225 472800**

or by e-mail at **dominicb2@monahans.co.uk**