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Super-Deduction for capital expenditure

Introduction

In his 2021 Budget, the Chancellor announced a new "super-deduction" for investment in new plant, machinery and equipment (PME). Essentially, this is an enhanced form of capital allowances.

The new super-deduction applies to expenditure incurred from 1 April 2021 to 31 March 2023 by businesses chargeable to corporation tax such as limited companies and unincorporated associations. Sole traders, partnerships and LLPs cannot benefit from the relief.

There is no cap on the amount of expenditure that qualifies for the super-deduction but different rates of relief apply based on the type of asset that has been purchased:

Qualifying Expenditure - 130% Super-Deduction

The 130% super-deduction applies to most items of new plant, machinery and equipment (PME) purchased for the trade that ordinarily qualify for capital allowances, other than those treated as "special rate" expenditure (see below). The PME must be new and unused.

Qualifying Expenditure - 50% Super-Deduction

The 50% super-deduction applies to items of plant and machinery that are treated as "special rate" expenditure. These include integral features of a building (electrical systems, cold water systems, space and water heating systems, lifts, escalators, moving walkways and external solar shading), solar panels, and thermal insulation.

Qualifying Expenditure - 100% Super-Deduction

The 100% super-deduction applies to "ring-fence" expenditure. This relates to oil and gas extraction activities.

Example

A company makes a taxable profit of £500,000 and has purchased a vehicle for £100,000. If the vehicle meets the qualifying criteria, the company can claim a super-deduction of £130,000 against its profits saving corporation tax at 19% of £24,700.

Exclusions

The super-deduction does not apply to:

- Assets bought second-hand or which have been previously been used
- Assets bought in the final year of trading
- Cars (including low/zero emission cars)
- Long-life expenditure, i.e. assets which have a predictable economic life of more than 25 years
- Assets which are leased out, e.g. in a leasing business. This will preclude relief on integral features of a building that is leased out as an investment property, for example.

Date of Expenditure Qualifying for Super-Deduction

The general rule is that the expenditure must be incurred on or after 1 April 2021 and before 1 April 2023. Expenditure is "incurred" on an asset as soon as there is an unconditional obligation to pay for it. Typically, this is the date of delivery, but it can also be the date when a certificate is issued.

Super-deductions are not available where the contract to buy the PME was entered into before 3 March 2021 i.e. PME ordered before that date will not attract the super-deduction.

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Disposals of PME

When PME is sold and a claim for a super-deduction has been made on the expenditure there will be an immediate balancing charge i.e. a taxable addition to the company's profits. The balancing charge is calculated differently depending on when the disposal takes place.

Generally the balancing charge will be calculated at 130% or 50% of the sale proceeds received but there are certain transitional rules for assets purchased partly before and partly after 1 April 2021 and for assets sold during accounting periods that straddle 1 April 2023.

Interaction with Annual Investment Allowance (AIA)

Businesses can choose whether to claim the super-deductions the Annual Investment Allowance (AIA) or a combination of both, subject to being able to claim only once on any particular amount of expenditure. The AIA limit is £1,000,000 until 31 December 2021, reducing to £200,000 thereafter. Where an accounting period straddles 31 December 2021, special rules apply.

If the AIA is available to companies purchasing special rate assets, it may be more beneficial to claim this rather than the super-deduction – the AIA gives a £190 tax saving for every £1,000 of expenditure but the super-deduction only provides £95 per £1,000.

AIAs may also be more beneficial to a business if is likely that the PME will be sold or part exchanged in the foreseeable future to as this may avoid an enhanced balancing charge at the post April 2023 rate of tax.

Caveat

The above is based on draft legislation published on 3 March 2021. The legislation is subject to change as it passes through Parliament, and it is the final legislation which will apply with effect from 1 April 2021.

Hire Purchase and Leasing

The super-deduction is available to PME acquired on hire purchase. The HP contract must provide that ownership of the PME will pass to the hirer on the exercise of an option or another specified event. Also, the asset must be in use at the end of the relevant accounting period.

In the case of finance leases which do not meet the conditions of HP, capital allowances (including super-deductions) are not available. Instead, tax relief is given over the period of the lease.

Accounting Periods Straddling 1 April 2023

Where expenditure is incurred in an accounting period straddling 1 April 2023, the super-deduction will be scaled down, pro-rata to the number of days falling after that date.

Anti-Avoidance

Super-deductions may be denied where certain arrangements have been entered into. This measure applies where it is considered reasonable to conclude that the arrangements are contrived, abnormal or lacking a commercial purpose, and their main purpose is to obtain the super deduction. For example, arrangements to cancel existing orders for equipment and replace them with similar orders would likely be caught by this provision.

If you have any queries over the operation of the new rules or the categories of qualifying assets, please do not hesitate to contact us.

Contact Us

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