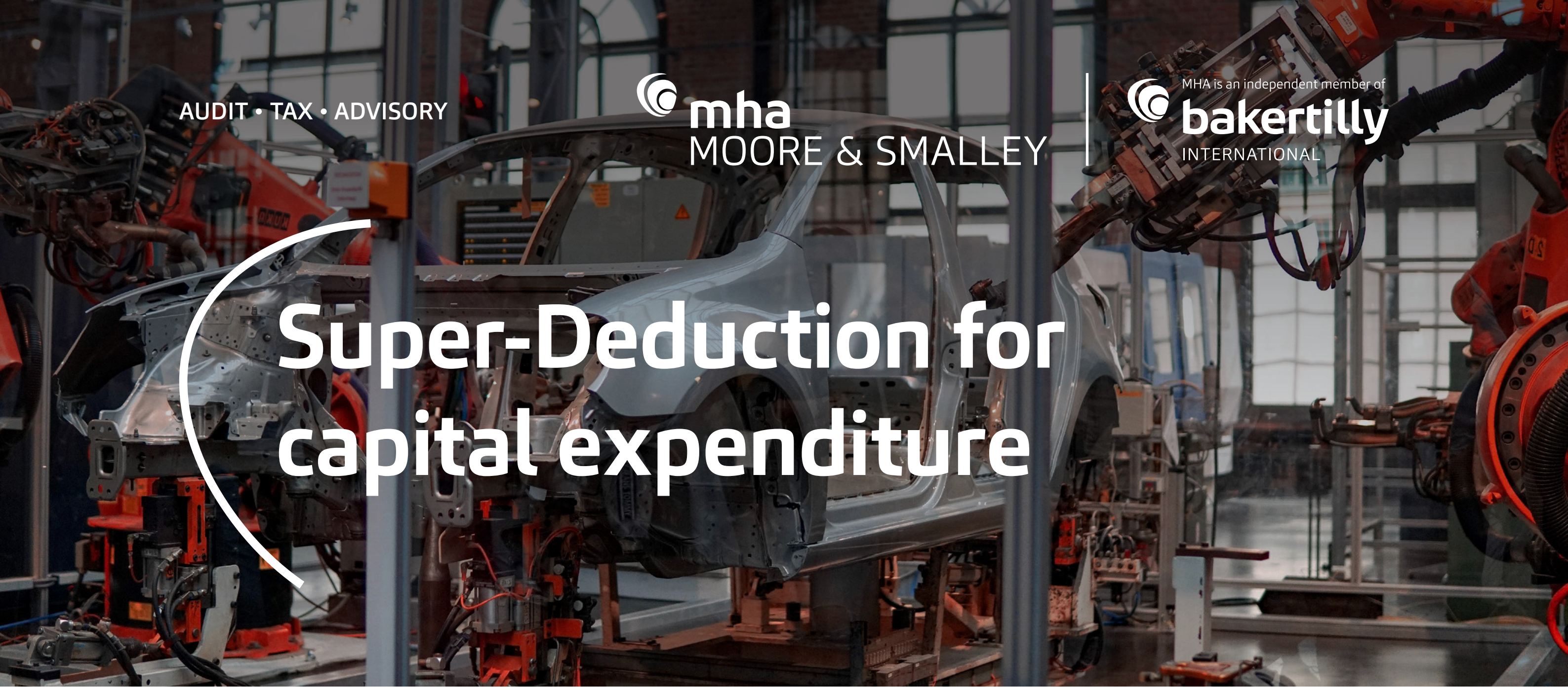

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Super-Deduction for capital expenditure

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. Qualifying expenditure will attract 100% first year allowances on 130% of the expenditure for most plant and machinery, resulting in a tax saving of £247 per £1,000 of expenditure. In the case of integral features of a building, the saving is £95 per £1,000 of expenditure.

The super-deduction applies to businesses chargeable to corporation tax, such as limited companies and unincorporated associations, but not to sole traders, partnerships and LLPs.

There is no cap on the amount of expenditure that qualifies for the super-deduction and businesses may claim any amount up to the maximum allowed.

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 has profit before depreciation of £500,000. It has incurred CapEx of £100,000 on a commercial vehicle. Its profits for tax purposes will be £500,000 less £130,000 equals £370,000. Corporation tax at 19% will be £70,300.

The tax saved as a result of the CapEx is £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. However, super-deductions are not available where the contract to buy the PME was entered into before 3 March 2021. Hence, any PME ordered before that date will not attract super-deductions.

Disposals of PME

Where an item of PME is sold or part-exchanged, a balancing charge will arise. This charge will be calculated at 130% or 50% of the sale proceeds as appropriate and will form part of the profits charged to tax in the period of sale. Where the expenditure was been incurred partly before and partly after 1 April 2021, the enhanced balancing charge will apply only to the post 1 April 2021 expenditure, and the normal rules will apply to the earlier expenditure, reducing the balance on the relevant pool of expenditure.

It should be noted that with effect from 1 April 2023, the main rate of corporation tax will be increased to 25%. The enhanced balancing charge will therefore be subject to charge at the new rates of tax.

Deferred tax will need to be provided in the accounts for the potential balancing charge. The effect of this will be that the super-deduction may not result in a reduced tax charge in the profit and loss account, although it should result in a lower corporation tax liability to HMRC.

Interaction with Annual Investment Allowance (AIA)

Businesses can choose whether to claim super-deductions or the Annual Investment Allowance (AIA), or a combination of both, subject to being able to claim only once on any particular amount of expenditure. Under the AIA, 100% allowances are available up to the AIA limit. This gives a £190 tax saving for every £1,000 of expenditure. For Special Rate Expenditure, the AIA is therefore more beneficial to the super-deduction, which provides £95 per £1,000.

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.

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 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, and be accounted for as a finance lease in the accounts (i.e. capitalised).

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. Please let us know if you require further detail.

Asset leasing companies will not qualify for the super deduction. This may result in leases becoming less financially attractive to businesses as a means of acquiring assets; please let us know if you require advice on specific proposed transactions.

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.

We will be pleased to advise on any issues arising from the new super-deduction rules.

Contact Us

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