Client Resource

Capital allowances for plant and machinery

A guide for clients

BWM, Castle Chambers, 43 Castle Street, Liverpool, L2 9SH
www.bwm.co.uk 0151 236 1494

How to minimise business tax in 2018/19.

If there's one thing that keeps us awake at night it's the thought of how many British businesses are failing to claim capital allowances to which they are entitled – worth billions of pounds across the board, according to some estimates.

Capital allowances provide the mechanism for tax relief on certain types of capital expenditure (the purchase of assets such as office furniture, or equipment) essentially providing a deduction against profits.

Depending on the nature of the allowances, the deduction may be up to 100%, providing full write-off against profits in the year of purchase.

Where 100% relief is not available, using what are known as writing-down allowances to deduct a percentage of an item's value from your profits each year can be a useful way to extend the relief over a longer period. On the flip side, you may have to pay a balancing charge should you receive any proceeds from disposing of that asset.

There are various types of allowance available but not all allowances are available for all types of capital expenditure – the allowances that can be claimed depend on the type of capital expenditure.

You can't claim capital allowances if you use the cash basis for your accounts, with the exception of cars.

Of course you don't have to claim capital allowances and as long as you take care to follow the rules, you can pick and choose what to claim. This can be very useful from a tax-planning perspective.

Plant and machinery

For most businesses, the main type of capital allowance is for plant and machinery. To claim these allowances you must be carrying out a qualifying activity and incurring qualifying expenditure.

'Qualifying activity' encompasses all taxable activities other than passive investment. That means capital allowances can be claimed by the self-employed, members of partnerships, companies, and furnished holiday let landlords.

'Qualifying expenditure' is spending on most plant and machinery for the purposes of the trade, which includes spending on moveable equipment used within the business, but excludes assets such as goodwill, land and buildings.

Examples of assets that qualify for plant and machinery allowances are computers, office furniture, tools and machinery.

There are three types of plant and machinery allowance:

- the annual investment allowance (AIA)
- first-year allowances (FYAs)
- writing-down allowances (WDAs).

Asset pools

Capital expenditure on plant and machinery is added to one of three pools, and allowances are calculated at pool level rather than separately for each individual asset.

The three pools are the main pool, special rate pool or single asset pool. The following expenditure can be added to either pool:

- cost of the items (excluding VAT where the business is VAT-registered)
- cost of improving large items
- cost of installing large items
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- the original cost (but not any interest charges) of items bought on finance or higher purchase agreements.

Most plant and machinery expenditure incurred on assets used exclusively for the business goes into the **main pool**. The main exception is high-emission cars.

The **special rate pool** is used for items that cannot go into the main pool, such as high-emission cars, or integral building features such as electrical, lighting, heating or ventilation systems.

For expenditure incurred on or after 1 April 2018, a high-emission car is one with CO^2 emissions in excess of 110g/km. Where the expenditure was incurred in the previous three years, the figure is 130g/km.

A **single asset pool** is intended for items used for both business and private use, and the allowances are proportionately reduced to reflect private use. It's also intended for short-life assets.

Annual investment allowance

The AIA is the most useful capital allowance and is essentially a 100% allowance for businesses spending on plant and machinery, vans and motorbikes – but excluding cars.

The allowance is set at £200,000 a year, being proportionately reduced for chargeable accounting periods of less than one year.

Once the allowance has been used up, capital expenditure qualifies for WDAs at the appropriate rate.

Where the AIA is claimed, the cost of the item is added to the appropriate pool and the amount of the AIA claimed is deducted from the pool.

Consequently, if the expenditure qualifying for the AIA is less than £200,000 and the full AIA is claimed, the net addition to the pool is nil.

On any subsequent disposal, the disposal proceeds are deducted from the pool.

Example

Kai runs a printing business and in one year invests £250,000 on new machinery. He can claim the AIA on £200,000 of the expenditure.

The £250,000 expenditure is added to the pool, the AIA of £200,000 is deducted and WDAs are claimed on the pool balance (as increased for the net addition of £50,000).

Main pool WDAs are calculated as follows.

Written-down value (brought forward)	£50,000
Addition in year	£250,000
Less: AIA	(£200,000)
Pool balance	£100,000
WDA @ 18%	(£18,000)
Written-down value (carried forward)	£82,000

It's not mandatory to claim the AIA allowance, and it will not always be beneficial to do so.

It's possible to tailor claims and doing this can be helpful in preserving personal allowances or where there aren't enough profits to utilise the allowance.

You can choose not to claim the AIA where the asset is going to be disposed of in the near future and claiming the AIA would trigger a balancing charge.

In this situation, it may be better to claim a WDA instead.

First-year allowance

Like the AIA, FYAs allow a 100% deduction against in-year profits.

They are only available for certain types of assets, including low-emission new cars, new vehicle electric charge points, new zero-emission goods vehicles, certain new energy-saving and water-efficient equipment, and certain new gas refuelling equipment.

Cars do not attract the AIA so the only way to secure a 100% capital allowance for a car is to buy a new low-emission car.

Where expenditure is incurred on or after 1 April 2018, this is one with CO^2 emissions of less than 50g/km. The figure was 75g/km for expenditure incurred between 1 April 2015 and 31 March 2018.

FYAs are only available for a new car. Second-hand cars don't qualify, even if the CO^2 emissions are below the threshold.

Cars not qualifying for FYAs are eligible for WDAs, with the rate depending on the car's emissions – ranging from 100% FYAs for new low-emission cars to 8% WDA for high-emission cars.

Choosing a lower-emission car accelerates the rate of relief.

Writing-down allowances

Unlike the others, WDAs do not provide immediate tax relief against profits for capital expenditure. Instead, the relief is spread over several years.

The allowances are calculated on the pool's written-down value, with the rate depending on whether the asset is in the main pool (18%) or the special rate pool (8%).

For those in a single asset pool, the WDA rate would apply as if there were no private use and the asset were allocated to the main or special pool.

For example, if a high-emission car is used for private and business use, the appropriate rate (before reduction for private use) is 8%. The private use adjustment is then made after this calculation.

Small pools

If the pool balance is £1,000 or less before claiming a WDA, a small pools allowance can be claimed instead of a WDA for the full WDV remaining.

Disposals

When an asset is sold, the disposal proceeds are deducted from the pool. If these are more than the pool balance, the excess is added back when working out taxable profits as a balancing charge.

Claims

You must claim capital allowances on your tax return.

Talk to us about capital allowances. Contact [Andy Oakes.](#)

FOR GENERAL INFORMATION ONLY

Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

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