Capital Allowance
Explained

The budget presented by The Chancellor of The Exchequer to The House Of Commons on 3rd March 2021, included a significant new tax allowance for the purchase of certain types of plant and machinery for many businesses. The new allowance is known as super-deduction and became available from 1st April 2021.

Super-deduction is the latest addition to a range of allowances available

Capital allowances are a method of reallocating the taxable benefit of an asset over time. The rules are set by HMRC and for tax purposes any depreciation charge shown within accounts prepared by a business is added back into net profit and replaced by an allowable capital allowance. A capital allowance is the sum of money a UK business can deduct from pre-tax profit to reduce corporate or income tax.

From 1st April 2021 until the 31st December 2021 there are three types of capital allowance available. Although not every business or equipment type will qualify for each allowance, details of each allowance are as follows:-

Writing Down Allowance (WDA)

The permanent scheme for claiming capital allowances is the standard **writing down allowance** which allows businesses to write off the cost of an asset for tax purposes over the period it is being used. Writing down allowances are available for all new and used equipment and can be claimed by any tax-paying business.

Annual Investment Allowance (AIA)

From 2006 an enhanced scheme for capital allowances has been available, known as the **Annual Investment Allowance**. It allows businesses to acquire a certain amount of capital equipment each year (£1,000,000 in 2021) and claim the full allowance in the tax year that the equipment was purchased.

Super-deduction

Available from 1st April 2021, super-deduction is the most attractive capital allowance scheme to date. It has been introduced to generate a significant increase in capital allowances by UK corporations ahead of a planned increase in corporation tax from 19% to 25% on 1st April 2023.

As with the Annual Investment Allowance, the super-deduction scheme brings forward all allowances that can be claimed to the year in which the qualifying asset is bought, but allows the claim to be based on an amount which is 30% higher than the purchase price of the asset (see table below). Whilst the scheme is time-limited, there is no financial cap on the amount of equipment that can be subject to super-deduction and the allowance can be applied to both outright purchase and equipment acquired through hire purchase agreements.

Who and what qualifies for each allowance?

The table below illustrates the three capital allowances that are in place during 2021:

	Writing Down Allowance (WDA)	Annual Investment Allowance (AIA)	Super-deduction
Capital allowance available	100% of asset price	100% of asset price	130% of asset price
Allowance in year of spend	18% of asset price	100% of asset price	130% of asset price
Qualification period (inclusive)	None	Jan 21 to Dec 21	April 21 to March 23 (Reduced super-deduction in Q1 2023)
Expenditure limit	None	£1,000,000 (No confirmation of allowance from 01/01/22)	None
Other tax allowances	Interest on loans and Hire Purchase Agreements	Interest on loans and Hire Purchase Agreements	Interest on loans and Hire Purchase Agreements
Who qualifies	All Businesses	All Businesses	Corporations Only
Exclusions		Cars	Cars, used equipment, integral features within a building, assets acquired for onward hire

Any HMRC approved capital allowance will result in a tax saving equivalent to the marginal rate of tax paid by a business. Corporation tax is paid by all UK businesses at a current rate of 19%. Individuals trading within a partnership or as a sole-trader will pay income tax at the appropriate rate.

The tables below are examples of the tax savings which might be possible through the three HMRC approved capital allowance schemes for both hire purchase and outright purchase.

These examples show tax savings available based on the current corporation tax rate of 19%. An increase in corporation tax is planned for 1st April 2023 and as such the tax relief illustrated below will increase from that date for many limited companies.

Example 1 – 3.5 Tonne N35.125T Tipper. Cost £25,000 + VAT available through hire purchase with a £2,500 deposit and 36 monthly payments of £662.29.

YEAR	Hire Purchase			Cash		
	COST	£25,000 + £1,342 interest		Cost	£25,000	
	WDA	**AIA**	**Super-deduction**	**WDA**	**AIA**	**Super-deduction**
YEAR 1	£855	£4,750	£6,175	£855	£4,750	£6,175
YEAR 2	£701	£0	£0	£701	£0	£0
YEAR 3	£575	£0	£0	£575	£0	£0
TOTAL (3 Years)	£2,131	£4,750	£6,175	£2,131	£4,750	£6,175
Unclaimed Capital Allowance	£2,619	£0	£0	£2,619	£0	£0
Total tax saving (Capital Allowance)	£4,750	£4,750	£6,175	£4,750	£4,750	£6,175
Total tax saving (HP interest)*	£255	£255	£255	£0	£0	£0
Total tax saving**	£5,005	£5,005	£6,430	£4,750	£4,750	£6,175

Example 2 – 7.5 Tonne Easyshift N75.150 E Tipper. Cost £40,000 + VAT available through hire purchase with a £4,000 deposit and 36 monthly payments of £1,059.66.

YEAR	Hire Purchase			Cash		
	COST	£40,000 + £2,148 interest		Cost	£40,000	
	WDA	**AIA**	**Super-deduction**	**WDA**	**AIA**	**Super-deduction**
YEAR 1	£1,368	£7,600	£9,880	£1,368	£7,600	£9,880
YEAR 2	£1,122	£0	£0	£1,122	£0	£0
YEAR 3	£920	£0	£0	£920	£0	£0
TOTAL (3 Years)	£3,410	£7,600	£9,880	£3,410	£7,600	£9,880
Unclaimed Capital Allowance	£4,190	£0	£0	£4,190	£0	£0
Total tax saving (Capital Allowance)	£7,600	£7,600	£9,880	£7,600	£7,600	£9,880
Total tax saving (HP interest)*	£408	£408	£408	£0	£0	£0
Total tax saving**	£8,008	£8,008	£10,288	£7,600	£7,600	£9,880

*Note that interest paid on a hire purchase contract is generally deductible annually in line with the IFRS/UK GAAP accounting standards.

** Tax saving based on the current Corporation Tax rate of 19%. From 01/04/23 Corporation Tax will increase to 25% on profits over £250,000.