



Capital Allowances Changes (Updated May 2023)

Capital allowance changes ahead

In the recent Budget, the Government announced a number of changes to the capital allowances regime for the coming tax year and we explain those changes below.

The Annual Investment Allowance

The Annual Investment Allowance (AIA) is available to both incorporated and unincorporated businesses. It gives a 100% write-off on certain types of plant and machinery up to certain financial limits per 12-month period. The limit has been £1 million for some time but was scheduled to reduce to £200,000 from April 2023. The Government has announced that the temporary £1 million level of the AIA will become permanent and the proposed reduction will not occur.

Green charging

The 100% First Year Allowance (FYA) for electric vehicle charge points is extended from 31 March 2023 to 31 March 2025 for corporation tax purposes and 5 April 2025 for income tax purposes.

The super-deduction

The super-deduction, for companies only, of 130%, available on expenditure on plant or machinery which is unused and not second-hand, came to an end on 31 March 2023. It did not apply to certain expenditure cars and expenditure incurred on the provision of plant or machinery for leasing (unless it was 'background plant and machinery' in a building which was leased out).

The Special Rate allowance, for companies only, of 50% on expenditure on unused and not second-hand long-life assets, integral features of buildings, thermal insulation and solar panels has also ended from the same date.

However, do remember that if these allowances were claimed and the assets are then sold in the future, there may well be a free-standing tax charge on the sale proceeds.



Full Expensing

However, the Government announced in the Budget the introduction of Full Expensing, a 100% FYA, which allows only companies to deduct the cost of qualifying plant and machinery from their profits straight away with no expenditure limit. Qualifying expenditure will include most plant and machinery, as long as it is unused and not second-hand, but again will not include cars and assets for leasing as detailed above. Full Expensing is effective for acquisitions on or after 1 April 2023 but before 1 April 2026.

A 50% FYA for other plant and machinery including long life assets and integral features of buildings will operate along similar lines.

Full Expensing and the 50% FYA are only available for companies and not for unincorporated businesses.

However, once again do remember that if these allowances are claimed and the assets are then sold in the future, there may well be a free-standing tax charge on the sale proceeds.

As always, tax can be taxing, so please contact our Tax Partner, Viraj Mehta, for more information - viraj.mehta@bournerbullock.co.uk