SUPER DEDUCTION - ADDITIONAL TAX RELIEF FOR LIMITED COMPANIES

The Chancellor's new super-deduction – what could it mean for you?

When a business buys plant and equipment they generally get to deduct this cost against taxable profits in the form of a "capital allowance".

For some time, many businesses have had the opportunity to claim a 100% tax deduction in the year of purchase using a relief called the Annual Investment Allowance.

At the Budget on 3 March 2021 the Chancellor announced he would go further and offer a 130% super deduction for qualifying plant for the next two years to encourage capital investment and to aid the UK's economic recovery in the aftermath of the Covid-19 pandemic.

With a current corporation tax rate of 19%, this new allowance could save companies almost 25p in tax for every £1 spent. Unlike the AIA, the Super-deduction is not capped

Current rules

- The capital allowances regime provides tax relief for assets used in the business. Allowances are given at either 6% or 18% of cost (unless AIA's are claimed, see note below) of the asset deducted each year on a reducing balance basis, depending on the type of asset purchased.

- These rates are often irrelevant as there is an Annual Investment Allowance ("AIA") which alternatively provides 100% tax relief for the cost of the asset in the year of purchase. The current limit of AIA is £1million per annum. AIA will generally be claimed on the first £1millon of expenditure and the balance will receive allowances at 6% or 18%. The majority of business assets will qualify for AIA, the most common exception to this being cars and the AIA limit is due to drop back down to £200,000 per annum at the end of 2021.

The new "temporary" rules

Who can claim?

- Limited companies only.
- Sole trades, partnerships and LLPs are specifically excluded.

When can you claim?

- The super-deduction is available on qualifying capital expenditure incurred

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between 1 April 2021 and 31 March 2023.

- The claim will be made in the company's corporation tax return for the accounting year in which the qualifying expenditure is incurred. For example accounting periods ending on 31 March 2022 will receive the cash flow advantage as a result of the reduced corporation tax liability on 1 January 2023 when the tax becomes payable for that year. Companies subject to quarterly instalment payments will obtain the cash flow benefit earlier when the instalments are due.

What type of assets will qualify?

- New and unused plant and machinery which would ordinarily receive capital allowances in the main rate pool, for example:-
  - Computer equipment and servers, computer software, vans, specialist machinery, tools, security systems, office desks and furniture (not an exhaustive list)
- The super-deduction is **not** available on items which would receive capital allowances in the special rate pool, for example:-
  - Heating and cold water systems, air conditioning, electrical systems, lighting systems, solar panels, ventilation systems (not an exhaustive list)
  - See "other measures" section below re new 50% FYA for such assets.

What are the benefits?

- Qualifying capital expenditure will receive a 130% super-deduction in the company's corporation tax computation from 1 April 2021.
- This means for every £100,000 of qualifying capital expenditure, the company will receive capital allowances of £130,000. Capital allowances reduce the company's taxable profits and in turn reduce the corporation tax liability. In this case, the corporation tax saving on £100,000 of expenditure is £24,700.
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What is excluded?

- Purchases where the contract was entered in to pre- 3 March 2021 (Budget Day) even where the expenditure is incurred after 1 April 2021.
- Purchases of second hand assets
- Cars
- Purchases of assets held for leasing (and this appears to include plant hire and intercompany rental charges)
- Purchases of assets from a connected party
- Additional conditions are required to be met for assets acquired under hire purchase (we are awaiting further details from HMRC on this point). However, it is expected HP assets will also qualify.

Things to watch!

- When the super-deduction is claimed on an asset which is then subsequently sold, before the new regime ends on

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31 March 2023, a balancing charge will arise to claw back some of the super-deduction previously claimed i.e. income equal to the disposal proceeds **+ an additional 30%** will be added to the taxable profits in the year of sale.

- When the accounting period straddles 31 March 2023 (the end for the super-deduction qualifying period) the amount of deduction available will be time-apportioned accordingly. This is to ensure the 130% super-deduction only gives relief from corporation tax at 19% as corporation tax increases to 25% from 1 April 2023.
- For example, accounting periods ending on 31 December 2023 will receive a maximum deduction for that year of 107.5% as the super-deduction will only be available for 3 months of that accounting year.
- There are anti-avoidance rules in place to prevent companies from cancelling a contract before 31 March 2021 and then then re-entering into the same contract after 1 April 2021 with a view to obtaining the super-deduction

Other measures

1. Special rate pool

- As previously mentioned, assets which would ordinarily qualify for the special rate of capital allowances will **not** qualify for the new 130% super-deduction.
- Alternatively, these assets will be eligible for a 50% first year allowance. For example, the company incurs capital expenditure of £100,000 on a new lighting system. Under current rules, the annual rate of capital allowances is 6% and the annual corporation tax saving is £1,140. Under the new regime, in the year of purchase 50% of the cost will be relieved and the corporation tax saving will be increased to £9,500.
- Where the AIA is available, it is expected companies will claim this first and then may look at the new 50% FYA for any expenditure in excess of the AIA limit.

2. Annual investment allowance

- On 1 January 2019, the Government temporarily increased the annual investment allowance from £200,000 to £1million per year for a period of two years. The AIA limit was due to return to £200,000 on 31 December 2020 but this has now been extended to 31 December 2021.

Contact Us

The team here are delighted to help. Clients should contact their usual relationship manager/director. If you are not a client please address questions to Michael.nolan@Milnecraig.co.uk or call him on 0141 887 7811.

This report is written for the benefit of our clients. Further advice should be obtained before any action is taken.

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