

Budget 2008

Capital Allowances



Tax simplification

The Government announced the next stage in its rolling programme of tax simplification to further enhance UK productivity and competitiveness.

Following discussions with business and tax professionals, the Government announced the initial outcomes on the three tax simplification reviews launched at the 2007 Pre-Budget Report:

- VAT rules and administration: consulting on ideas to simplify operation of the partial exemption regime and capital goods scheme, and exploring the continuing need for business to seek permission from HMRC before taxing otherwise VAT-exempt supplies of land and property.
- Anti-avoidance legislation: repealing outdated and complex anti-avoidance provisions on bond washing, employment securities and other transactions in securities.
- Corporation Tax rules for related companies: simplifying the associated companies rules relating to the small companies rate of Corporation Tax.

Building on the significant reforms to the business tax system announced in Budget 2007, due to take effect from April 2008, and responding to representations from business, the Budget further simplifies Corporation Tax by:

- reforming capital allowances to allow 500,000 businesses to write off pools of £1000 or less.
- announcing a new review in which HM Treasury and HMRC, working in partnership with business, will look at how to simplify the Corporation Tax calculations and returns for smaller companies.

The Government also announced over 20 further tax simplification measures, which will help sectors across the UK economy, including further modernising the tax system for financial services and the charitable sector.

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From 1 April 2008 for corporation tax and 6 April 2008 for income tax, changes will apply to the rates of capital allowances. Allowances for plant and machinery will reduce to 20%, allowances for long-life assets will increase to 10% and a new classification of features integral to a building will be introduced at a rate of 10%. The amount of relief claimable under industrial and agricultural buildings allowances will be reduced by one quarter, as part of phasing them out in full by 2011. First-year allowances for small and medium-sized enterprises will be replaced by a new Annual Investment Allowance of £50,000 for most businesses regardless of size, giving relief on 100% of the first £50,000 of expenditure.

Loss making companies investing in plant and machinery which qualifies for enhanced capital allowances for environmentally beneficial and energy saving technologies will be able to surrender losses from qualifying expenditure for a cash payment of 19% of the expenditure, subject to a cap of the higher of £250,000 or a company's PAYE/National Insurance Contributions liabilities.

From April 2008, the rate of research and development tax credits will rise from 125% to 130% for large companies and from 150% to 175% for SMEs (the SME increase is subject to approval from the European Commission and will be made effective by Treasury Order from a date not earlier than 1 April 2008).

Businesses which have small historic pools of unrelieved expenditure, or business that may acquire small pools in the future will be able to claim a writing-down allowance (WDA) of up to £1,000 where the unrelieved expenditure in the main pool or special rate pool is less than £1,000. It is envisaged that this measure will be a significant saving on the administration burden of small and micro businesses, as businesses will no longer have to calculate WDAs on very small balances for many years, as required under the current rules.

Enhanced capital allowances for energy-efficient and water-saving (environmentally beneficial) technologies are to be extended with one additional category to the Water Technology Criteria List and four new categories on the Energy Technology Criteria List.

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The additional categories are:

- Waste water recovery and reuse
- Compressed air master controllers
- Compressed air flow controllers
- Heat pump dehumidifiers
- White LED lighting

The changes will have effect on and after a date appointed by Treasury order to be made prior to the Summer 2008 Parliamentary recess.

Tax incentives for development of brownfield land

The Government will legislate in Finance Bill 2009 to extend land remediation relief to expenditure on derelict land and to the removal of Japanese knotweed by treatment from 1 April 2009. It will also introduce secondary legislation later this year to phase out the landfill tax exemption for waste from the clean up of contaminated land from 1 April 2012.

The Government will consult on draft legislation for both reforms to land remediation relief and the landfill tax exemption for waste from the clean up of contaminated land in the summer.

Replacing the existing capital allowance treatment for business cars with an emissions-based approach

With effect from 1 April 2009 for corporation tax purposes (6 April 2009 for income tax) the capital allowance treatment of all cars will be reformed. Expenditure on cars with CO₂ emissions above 160g/km will attract 10 per cent Writing Down Allowance (WDA) and expenditure on cars with CO₂ emissions of 160g/km or below will attract 20 per cent WDA. Subject to State aid approval, cars leased to those in receipt of certain disability allowances will be placed in the 20 per cent main pool, regardless of their CO₂ performance.

The rules which disallow a proportion of car lease rental payments will be reformed in line with the new capital allowances rules. The new disallowance will be 15 per cent of the relevant payments, applied to cars dealt with in the 10 per cent special rate pool. The Government is considering the option of applying the disallowance only to the final business user in a chain of leases.

In addition to this:

- the 100 per cent first year allowances (FYA) for the cleanest cars will be extended from 31 March 2008 to 31 March 2013 and the qualifying CO₂ emissions threshold will be reduced to 110g/km.
- the 100 per cent FYA for gas re-fuelling infrastructure investment will also be extended from 31 March 2008 to 31 March 2013, and its scope expanded to include biogas infrastructure.
- company car tax rates will be increased on all but the cleanest cars emitting less than 135g CO₂/km or less in 2010-11.
- the incentive to drive fewer miles will be strengthened by increasing the fuel benefit charge at least in line with the Retail Prices Index from April 2009.
- tax-free mileage allowances (AMAPs) rates and thresholds will be maintained at current levels.

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Capital allowances buying and acceleration

The Government announced a measure to counter arrangements intended to make capital allowances available to groups with no long-term interest in a trade, and to accelerate the rate at which capital allowances are available.

The measure will have effect where a company sells its trade on or after today.

Details of the measure are set out in Budget Note 24 which can be found at:
www.hmrc.gov.uk/budget2008/bn24.pdf

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