



Introduction to Capital Allowances

General Background

Unlike other taxation regimes around the world, the United Kingdom does not allow taxpayers to claim the depreciation of assets as an allowable expense against taxation income. However, to compensate for this, taxpayers may claim relief in the form of capital allowances for the cost of certain assets employed in the business or trade.

Capital Allowances provide income or corporation tax relief for UK businesses at set rates for capitalised assets such as plant and machinery, fixtures and fittings and vehicles. The allowances are available to individuals, partnerships or companies.

Capital Allowances taxation provisions are included within the Capital Allowances Act 2001 which outlines the rules and regulations on who can claim capital allowances, what items relief can be claimed on and how to make the appropriate claim. Although the legislation contains over one thousand different sections, it is only in conjunction with case law, guidance and acquired knowledge that the capital allowances regime can be fully utilised.

Capital Allowances Mechanism

A taxpayer may claim an annual writing down allowance for the cost of assets against the taxable income in a period. The allowance is calculated using a reducing balance method and continues to be available until the full cost has been relieved or the asset is sold, destroyed or no longer used in the business.

At present, the rate of allowance for plant and machinery items is 20% per annum (though from April 2012, this rate will become 18%) and the special rate pool provides relief at 10% per annum (though this rate will reduce to 8% from April 2012).

Taxpayers also have access to an 'Annual Investment Allowance' which provides immediate 100% relief for up to £100,000 worth of expenditure. The Annual Investment Allowance amount will reduce to £25,000 from April 2012.

Example:

Betty purchased an air conditioning unit for £50,000, a chiller cabinet for £20,000, three refrigerators for £30,000 and £10,000 worth of kitchen equipment for use in her restaurant business.

Betty's capital allowance working for the year will show:

Total expenditure in equipment: £110,000
Total Annual Investment Allowance: (£100,000)
Remaining main pool items: £10,000
Writing Down Allowance (20%): (£2,000)
Carried forward: £8,000

Therefore, Betty may use £102,000 worth of capital allowances against her income from the business. Importantly, a taxpayer may choose not to claim all the relief if it cannot be used and in many cases the relief can be carried forward, carried back or offset against other taxable income.

Capital Allowances in Commercial Property

Generally, capital allowance claims are relatively straight-forward for most trading businesses. Many businesses will not spend more than the AIA on qualifying items and such claims are not complex.

However, capital allowance claims on commercial property acquisitions is a much more complicated area. It is possible that the acquisition of commercial property will provide the purchaser with significant tax relief from capital allowances both in the form of general plant and equipment, but also on fixtures and fittings within the building.

Claims are also available for renovations, refurbishments or extensions.

A taxpayer may claim capital allowances on historical expenditure without limitation unless an election has been agreed with a prior owner of the property. A vendor may use an election to retain the right to allowances, meaning the purchaser's claim may be restricted but even if an election has been agreed, significant claims for capital allowances may be possible.

Specialist allowances and reliefs may also be available on property purchases, developments and refurbishments such as Enhanced Capital Allowances on energy or water efficient equipment or Land Remediation Relief on site works.

The Role of Capitus

Capitus has a wealth of knowledge and experience within the capital allowances field and our mix of accounting, taxation and surveying knowledge allows us to maximise the taxation relief available whilst providing support and advice throughout the claiming process.

Send an e-mail to enquiries@capitus.co.uk if you require further information.