

Plant & Machinery Allowances Position following the 2008 Budget

Capital Allowances



The 2008 Budget made several changes to the existing rules on plant and machinery allowances which will affect anyone seeking to claim capital allowances.

From 1 April 2008 the depreciation rate applicable to the general plant and machinery pool was reduced from 25% to 20%. This change means that it will now take slightly longer for a tax payer to get a comparable level of tax relief using the new 20% rate as opposed to the previous rate.

The Budget also introduced a new plant and machinery pool known as the 'special rate pool' which has a depreciation rate of 10% per annum. Expenditure on assets known as 'integral features' are to be allocated to this new pool. In addition, if there is an existing long life asset pool, then this expenditure is to be transferred to the new special rate pool. This means that from 1 April 2008, the depreciation rate for long life assets has increased from 6% to the new rate of 10%.

Integral features

The formation of this new 'special rate pool' has created two different rates of depreciation for plant and machinery and the tax payer is now required to allocate plant and machinery expenditure to the correct pool. HMRC has provided a list of items which previously would have been treated as either fixtures or non-qualifying buildings expenditure but are now known as integral features. The list is as follows:

- Electrical systems
- Cold water systems
- Space or water heating systems, powered ventilation, air cooling systems
- Lifts, escalators and moving walkways
- External solar shading
- Active facades

The Chancellor no doubt, would tell tax payers that the introduction of integral features is a generous move as it now allows capital allowances to be claimed on items which previously did not attract any relief, for example the majority of electrical systems and cold water systems. However, the reality is that many of the items now classified as integral features would have been claimed previously under the fixtures legislation and at the general pool rate of 25%, not the newly introduced rate of 10%.

In addition, the new integral features category includes items which would have previously accounted for a substantial element of most plant and machinery claims. Now that this expenditure is to be treated at a rate of 10%, it will have a sizeable impact on the quantum and timing of the allowances available.

Enhanced Capital Allowances

One positive aspect of the introduction of integral features is that more companies may be able to benefit from the Enhanced Capital Allowances (ECAs) scheme. This 100% first year allowance for expenditure on energy and water efficient technologies will be more widely available now that electrical systems and cold water systems are treated as plant. Those companies incurring expenditure on new properties will, if they specify certain components wisely, be able to benefit from the accelerated tax relief offered by ECAs.

Generally

It will be the hotel industry which will really notice the capital allowances pinch. With the phasing out of IBAs and their complete abolition on 1 April 2011, coupled with the introduction of integral features, the capital allowances profile of hotel expenditure has drastically changed for the worse.

Although it is difficult to put any accurate figures on the effect the changes to the plant and machinery regime will have, it would appear that the majority of taxpayers will be worse off over the short term. The total plant and machinery allowances available overall will increase, but it is the rate at which they become available to the taxpayer where the main difference will be felt.

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It was perhaps with this in mind that the Chancellor introduced the Annual Investment Allowance (AIA). The AIA is a 100% first year allowance which is given on up to £50,000 of plant and machinery expenditure incurred by a company. Expenditure qualifying for the AIA can come from either the general pool or the special rate pool. The allowance will not benefit larger companies greatly but it will be useful to smaller companies.

Further details of the 2008 Budget can be found at:

http://www.hm-treasury.gov.uk/budget/budget_08/bud_bud08_index.cfm