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FACTSHEET

Is it a bird? Is it a plane? No, it's a Super Deduction!

For capital expenditure incurred from 1 April 2021 until the end of March 2023, companies can claim 130% capital allowances on qualifying plant and machinery investments.

Under the super deduction, for every pound a company invests, their taxes are cut by up to

25p.

For example, a Limited Company that purchases a new £10,000 van will receive £2,470 of tax relief after 1st April, where previously this had been £1,900 tax relief.

Partnerships and Sole Traders do not qualify for this relief and for those with that status, you may be wondering whether to become a Limited Company to take advantage of the super-deduction. However, caution is needed, and this decision should not be rushed into. Corporation Tax is due to rise to 25% in 2023 so any savings now will be clawed back later.

Why is the government introducing a super-deduction?

Since the Covid-19 pandemic, existing low levels of business investment have fallen, with a

reduction of 11.6% between Q3 2019 and Q3 2020.

Making capital allowances more generous, works to stimulate business investment. As a

result, these measures can promote economic growth and counter business cycles. The idea is that the super-deduction will give companies a strong incentive to make additional investments, and to bring planned investments forward.

What are capital allowances?

Capital allowances let taxpayers write off the cost of certain capital assets against taxableincome. They take the place of accounting depreciation, which is not normally tax deductible. Businesses deduct capital allowances when computing their taxable profits.

In translating its accounting profits into taxable profits, a business is usually required to'add back' any depreciation but can instead deduct capital allowances.

For example, a Corporation Tax paying company with accounting profits of £1,000, depreciation expenses of £200 and total capital allowance claims of £300 would make the following adjustment:

- Add £200 (depreciation expense) to £1,000 (accounting profits) = £1,200
- Deduct £300 (capital allowances) from £1,200 = £900 (taxable profits)
- Apply the appropriate tax rate, e.g., Corporation Tax at 19%: £900 x 19% = £171 tax due

What is plant and machinery?

Most tangible capital assets used in the course of a business are considered plant and

machinery, for the purposes of claiming capital allowances.

There is not an exhaustive list of plant and machinery assets. The kinds of assets which may

qualify for either the super-deduction or the 50% FYA include, but are not limited to:

- Solar panels
- Computer equipment and servers
- Tractors, lorries, vans
- Ladders, drills, cranes
- Office chairs and desks
- Electric vehicle charge points
- Refrigeration units
- Compressors
- Foundry equipment

Should I lease or buy?

Leasing is not now as attractive as buying capital items, because if you lease you will only get 100% of the lease costs as a tax deduction, but with the super deduction you get 130%.

So, when should I invest?

If you were thinking of making large capital purchases, now would be a good time to take maximum advantage of this super deduction.

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