Capital Allowances

The accounts of a business will normally feature a charge for depreciation on plant and machinery. Depreciation, however, is not allowed as a deduction for income tax and corporation tax purposes. Instead capital allowances can be claimed.

For most businesses an Annual Investment Allowance (AIA) is available giving a 100% deduction for the cost of plant and machinery and integral features, but not cars.

From 1 January 2016 the AIA limit is £200,000.

Where businesses spend more than the AIA limit, additional expenditure attracts an annual writing down allowance of 18% or 8% depending on the type of asset.

In the following years 18% of the remaining balance of the general pool and 8% of the remaining balance of the special pool can be claimed. Once the remaining balance of either pool is £1,000 or less the full balance can be claimed as a deduction.

Henderson Black & Co

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

Motor Cars

The amount of capital allowances available is based on the carbon emissions of the car:

- 100% allowances if emissions are 50gm/km or less
- 18% allowances if emissions are greater than 50g/km but no more than 110g/km
- 8% allowances if emissions are above 110gm/km

If the business is operated by a sole trader or partnership the amount of tax relief claimed may have to be reduced for any private use of the car.

Please note that the definition of a car for capital allowances may not be the same as that used for other aspects of Income Tax or Corporation Tax, or for other taxes such as VAT, or by other government departments.

Henderson Black & Co

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

Other Special Cases

Enhanced Capital Allowances

100% allowances are available on certain environmentally beneficial plant or machinery in accordance with the governments lists (see www.eca.gov.uk for more details)

RESTRICTING CLAIMS

Capital allowances do not have to be claimed. Where losses or low profits occur, a claim for capital allowances can be restricted. This leaves a higher pool available to carry forward to the following year when the allowances may be more beneficial.

Short-Life Assets

For any asset that you intend to keep for no more than eight years after the end of the accounting period in which you bought it, or that you expect will wear out or break within that period, you can make an election for it to be treated individually for capital allowance purposes as a 'short-life asset' allowing a balancing adjustment when the asset is sold or scrapped. This type of asset qualifies for the annual investment allowance (AIA), so you would normally only make a short-life election if your AIA is used up.

Henderson Black & Co

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS