

## **Arthur Kemp - Capital Allowances update from the Budget**

I hope this brief summary of last week's Budget Announcements for Capital Allowances might be useful!

**In summary, no real changes on Capital Allowances unless you are developing property within a Ltd Company.**

The law is the same so still available for all 'non-dwelling' properties – Commercial, Mixed use, Serviced Accommodation, Holiday Lets, HMO etc.

For properties in a Ltd Co only there is the introduction of a new "Super-Deduction" for NEW expenditure from 1<sup>st</sup> April 21 until 1<sup>st</sup> March 2023 meaning 130% of qualifying items can be claimed when bought.

Capital Allowances are often used as a mechanism to encourage investment in turbulent economic times. The effect is that it encourages investment to occur earlier than would be planned and to stimulate the property sector as well as general investment.

This is normally done by increasing the amount you can claim per year on new assets (Annual Investment Allowance) or giving a higher rate of additional tax incentives to encourage investment to be brought forward.

Following Mr Sunak saying: "We need an investment-led recovery", from 1 April 2021 until 31 March 2023, companies (Limited Companies only) investing in qualifying new plant and machinery assets will be able to claim:

- a 130% super-deduction capital allowance on qualifying plant and machinery investments
- a 50% first-year allowance for qualifying special rate assets

This super-deduction means if you are developing a property which attracts £100,000 of Plant & Machinery you can claim £130k against profits in the first year.

If there are not enough profits, this can be rolled forward to use against future years profits – extending the time until you need to pay tax.

With the increase in Corporation Tax going up to 25% also, this means that the £100k of Capital Allowances increases the cash savings from £19,000 (£100k @ 19%) to £32,500 (£100k @ 130% @ 25% CT)

Decreasing your net investment in the asset by 32.5%

The levels of Tax relief are now:-

### **Ltd Company:-**

- Corporation tax super-deduction of 130% First Year Allowance (FYA) on certain Plant & Machinery
- 50% Annual Investment Allowance (AIA) £1,000,000 (£200,000 from 1 January 2022)
- Structures and Buildings Allowance 3% (straight-line) - Commercial property only

## Non-Ltd Co (LLP / Personal)

- Annual Investment Allowance (AIA) £1,000,000 (£200,000 from 1 January 2022)
- Writing Down Allowance - integral features of buildings 6% + all Other plant and machinery 18%
- Structures and Buildings Allowance 3% (straight-line) - Commercial property only

## Example – Purchase of Holiday Let £300,000 + development of £100,000

- Purchase CA claim – est. £60,000 of Capital Allowances – all available in Yr 1 under the AIA (£1M) allowances
- Development CA claim est. £30,000 - @130% = £39,000 – all available in Yr 1 as a Super-Deduction
- Total Claim = £99,000 against Corporation Tax - currently 19% but rising to 25%

Mr. Sunak stated “..such a system had 'never been tried' in Britain before and represents the 'biggest business tax cut in modern British history....”

This focus on investment could filter down to benefit small businesses, providing opportunities for work and driving growth.

The Treasury thinks super deductions will ensure Britain's capital allowances system, which is the process whereby businesses pay lower tax when they buy certain assets, will be among the most competitive in the world, but the real in-depth specifics of what sort of things will fall in scope for the super deduction are not yet known.

The guidance states that the super-deduction will not be available for used or second-hand assets. It will also not be available for expenditure incurred under a contract agreed prior to 3 March 2021, even if the expenditure is incurred after 1 April 2021. This needs further clarity, as it appears this would only be for new development works rather than the Plant & Machinery present when buying a second-hand property.

**For this general summary, there is no real changes to the rates of Capital Allowances unless you are developing property within a Ltd Company.**

more information here:- <https://www.exactca.co.uk/news>

Thanks - Arthur

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Source:-

<https://www.gov.uk/guidance/super-deduction>

<https://www.gov.uk/government/publications/new-temporary-tax-reliefs-on-qualifying-capital-asset-investments-from-1-april-2021/new-temporary-tax-reliefs-on-qualifying-capital-asset-investments-from-1-april-2021>