

Capital allowances – the new rules from April 2008

The new rules became effective for companies from 1 April and for sole traders and partnerships from 6 April.

What follows below is a summary of the main aspects of the new capital allowances regime.

Annual Investment Allowance (AIA)

- New allowance to replace old first year allowance
- Available at 100% for first £50,000 of capital investment in the accounting year
- Expenditure can be on plant and machinery, long life assets, or integral features
- Accounting periods straddling the date of change will have a part allowance only
- Part allowance calculated on a time apportioned basis (e.g. 30 June 2008 year end will only have 3 months of the new allowance i.e. $3/12 \times 50,000 = £12,500$)
- NOT available to partnerships where not every partner is an individual e.g. company
- Only one AIA available when more than one company or unincorporated business is controlled by the same person (or persons) and they operate from the same premises or in the same business sector

Writing Down Allowance (WDA)

- 20% WDA on a reducing balance basis (replaces old 25% rate)
- Accounting periods straddling the date of change will use a “hybrid” rate
- Hybrid rate calculated on a time apportioned basis (e.g. 30 June 2008 year end will have 9 months at 25% and 3 months at 20%, thus hybrid rate $9/12 \times 25\% + 3/12 \times 20\% = 23.75\%$)

Agricultural Building Allowances (ABA) and Industrial Buildings Allowances (IBA)

- Being phased out by April 2011 on all buildings (including existing ones)
- 4% pre April 2008, 3% to April 2009, 2% to April 2010, 1% to April 2011
- Accounting periods straddling the date of change will use a “hybrid” rate
- Hybrid rate calculated on a time apportioned basis (e.g. 30 June 2008 year end will have 9 months at 4% and 3 months at 3%, thus hybrid rate $9/12 \times 4\% + 3/12 \times 3\% = 3.75\%$)

Special Rate Pool

- New pool attracting 10% allowance on a reducing balance basis
- Available for long-life assets (assets with 25 years or more useful life)
- “Integral features” of a building (see below)
- Thermal insulation

Integral Features of a building

Includes the following categories which will be eligible for the 10% rate (on the reducing balance)

- Electrical systems (including general lighting)
- Cold water systems
- Space or water heating systems, powered systems of ventilation, air cooling or air purification, and any floor or ceiling comprised in such systems
- Lifts, escalators, and moving walkways
- External solar shading
- Active facades

If more than 50% of the feature is replaced in a 12 month period then the new expenditure will be capital and not repair

100% First Year Allowances (FYA)

100% FYA available on the following “environmentally friendly” items

- Cars with CO2 emissions not exceeding 110 gm/Km
- Equipment used to refuel vehicles which run on natural gas, biogas or hydrogen
- Designated energy-saving plant and equipment
- Designated water conservation plant and equipment

Tax credit for companies

- Loss-making companies investing in energy-saving and environmentally-beneficial plant and machinery can claim a tax credit if their taxable loss cannot be offset in any other way (creates a cash-flow advantage)

Pool balances under £1,000

- If the balance on the main plant and machinery pool, or special rate pool falls below £1,000, then that balance can be claimed in full.

Comments

Careful planning of expenditure on plant and machinery will be required to obtain maximum allowances each year. The Annual Investment Allowance will be beneficial for smaller farms, but for larger farms and estates overall capital allowances will be lower. The loss of buildings allowances will hit livestock farmers hard, especially pig and poultry units.

Integral features in any new buildings will need to be identified. These want to be readily identifiable on any quotes or invoices so that the allowances are not missed. Any environmentally friendly equipment also needs to be carefully highlighted.

The above has been written by Nick Holmes and Henry Mullens of Chavereys. If you are not a Chavereys client and have any specific questions on the above please email Nick at nick.holmes@chavereys.co.uk or call Nick on 01233 610384 or Henry on 01223 874693. This Technical Release provides general guidance and does not purport to deal with all possible questions and issues that may arise in any given situation. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this guidance can be accepted by Chavereys.