

CAPITAL ALLOWANCES

What are they and how do they work?

Capital allowances are the means by which capital expenditure is relieved for tax purposes. The allowance reduces the profit on which tax is calculated. Whilst allowances are generally claimed gradually over a period of years there are some special allowances which allow you to advance the tax relief. In some instances it is possible to claim 100% in the period the expenditure is incurred.

The following table shows the main categories of allowances. These are just broad guidelines and every project must be critically assessed as there are many detailed rules.

Category of Allowances	What it covers	Rate of Allowance
Plant and Machinery	All business equipment, plant & machinery and certain eligible fixtures & fittings in commercial property.	18% per annum
Integral Features in Buildings	Includes: electrical, lighting, cold water systems, heating, ventilation & air cooling or purification systems, lifts/escalators, thermal insulation	6% per annum
Annual Investment Allowance (AIA)	All plant & machinery (except cars) and integral features	100% in year of expenditure on first £1,000,000
Structures & Buildings Allowance	All expenditure on buildings (except land) that does not qualify as plant & machinery or integral features N.b. Available from 29 October 2018. Complex transitional rules apply.	2% per annum (straight line) * 3% per annum from April 2020
Research & Development Allowance	All expenditure on plant & Machinery, integral features and structures & buildings (except land) directly used for qualifying R&D activities	100% in year of expenditure
Plant and Machinery qualifying as Enhanced Capital Allowances (ECA)	Specific energy saving and water conserving equipment and components approved by the Government and listed on their website N.b. ECA's are no longer available from April 2020	100% in year of expenditure
Remediation of Contaminated Land	Removal of pollutants and other harmful substances	150% in year of expenditure

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Example of Benefit

- £2.5m expenditure on a new office building (either new build or purchased from a third party), of which £0.5m is attributable to the cost of the underlying land.
- May generate approx. £600k (30% x £2m) of plant & machinery/ integral features allowances.
 - If the tax payer is entitled to the full Annual Investment Allowance (AIA) then it will be eligible to claim tax relief on the full £600k (100% x £600k) of eligible costs in the year of purchase.
 - If the tax payer has no AIA entitlement, then assuming a 50:50 split of plant & machinery and integral features, year 1 capital allowances would be approx. £72k.
- May generate approx. £1.4m of structures & buildings allowances (70% x £2m).
 - The tax payer could claim £42k (3% x £1.4m) in the year of expenditure.
 - A balance of £1.358m would be available to carry forward to future years, relievable at a rate of £42k per annum.

Tax Rate	Corporate Tax	Income Tax		
	19%	20%	40%	45%
	£	£	£	£
Year 1 saving (with AIA)	121,980	128,400	256,800	288,900
Year 1 saving (no AIA)	13,680	14,400	28,800	32,400
Lifetime saving	380,000	400,000	800,000	900,000

What can French Duncan do for you?

Every project must be critically assessed in order to maximise allowance claims and mitigate potential charges arising. The rules and regulations are vast and can be complex to follow however we have extensive expertise in this field and can assist you throughout this process. In particular we can offer advice when you are considering:

- Acquiring or building a commercial property;
- Selling a commercial property;
- Refurbishing a commercial property; or
- Claiming allowances on commercial property which have previously been overlooked.

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