CAPITAL ALLOWANCES: GENERAL ALLOWANCES

Instead of allowing every business to claim and calculate its own capital expenditure and depreciation when determining taxable profits, HM Revenue & Customs (HMRC) instead provide capital allowances as a standard measure of depreciation for assets used in the business.

Capital allowances are not given on all types of capital expenditure, the main exceptions being buildings, land and certain intangibles such as trade marks and goodwill. They cannot be claimed for plant and machinery used in residential lettings unless that property qualifies as a furnished holiday let.

Plant and machinery allowances

Plant and machinery allowances cover the cost of equipment and tools used wholly or partly in your business, such as vans, cars, machines, equipment, tools, furniture and computers.

- You may be eligible to claim one or more different allowances, but you cannot claim more than one allowance for the same expenditure.
- You can choose whether or not to claim and which allowances you wish to claim.
- You do not have to claim the full amount of the allowance, but you must specify the amount you wish to claim on your return.

The allowances do not cover equipment and tools you buy and sell in the normal course of your trade and does not extend to the actual premises or the setting in which you carry on the business, although there are designated ‘integral features’ that can qualify.

Type of allowance	Notes
Annual Investment Allowance (AIA) * The AIA covers the first £500,000 of qualifying expenditure on new plant and machinery (this limit is applicable to 31 December 2015 after which it is reduced to £200,000).	• AIA does not cover expenditure on cars, plant and machinery previously used for another purpose or items gifted to the business. • Only one AIA is available between groups, related companies and related businesses. • AIA cannot be claimed for the accounting period in which the business ceases.
Writing Down Allowance (WDA) * WDAs are claimed to reduce or ‘write down’ any balance on the pool of capital expenditure that you have not already claimed capital allowances for.	• Main pool rate of 18% per year on the pool balance. • The pool can include cars that have CO_2 emissions of 75 to 130 grams per kilometre (g/km) or less. • When a pooled asset is sold, the proceeds are deducted from the pool balance before calculating the WDA; if proceeds exceed the balance, a balancing charge arises. • WDA is not claimed for the period to cessation.
Special Rate Pool Certain types of equipment qualify for a special rate of WDA.	• Special pool rate of 8% per year. • Qualifying items include integral features (such as electrical systems), long-life assets (expected life of over 25 years) and cars with CO_2 emissions over 130g/km.
Small Pools Allowance This can be claimed instead of the WDA at either the main or special pool rate.	• Claim the whole pool balance where this is under £1,000 at the end of a 12 month chargeable period. • Calculate the balance on the main or special pool after adding any new expenditure (having claimed AIA) and deducting the proceeds of any pool items sold. • Does not apply to single pool assets.

* There are separate rules for calculating the AIA and WDA if the accounting period straddles the date of a change in the rate of allowance or if the accounting period it is shorter or longer than 12 months.

CAPITAL ALLOWANCES: GENERAL ALLOWANCES

Single pool assets

Expenditure on certain items of plant and machinery is not pooled. Instead, the WDA is calculated for each asset individually.

Assets used partly for non-business use	• WDA is calculated at the appropriate 18% or 8% rate. • The amount of WDA is reduced according to the amount of private use.
Short life assets	• Assets that are not expected to last more than eight years. The cost of the asset is written-off over its life. • Excludes cars, private use assets and special rate items

First Year Allowance

Qualifying expenditure on certain 'green' and energy efficient items attracts a 100% capital allowance:-

- Designated energy-saving or water efficient equipment.
- Equipment for refuelling vehicles with natural gas, biogas or hydrogen fuel.
- New and unused zero-emission goods vehicles.
- New and unused cars with low CO_2 emissions of not more than 75g/km.

Business Premises Renovation Allowance (BPRA)

The BPRA scheme entitles you to claim 100% allowance for the capital costs incurred for certain expenditure on the conversion or renovation of empty business premises in order to bring them back into business use.

To qualify for BPRA, expenditure must not exceed €20 million per project and the premises must:-

- Not have been used for any trading or other business activity, or as offices, for at least one year before the works begin.
- Be in an Assisted Area, that is, an area which is considered to be disadvantaged and eligible for national regional aid.
- Be available for business or commercial use after the works are complete (but not for certain industries such as farming and fisheries).
- BPRA ends on 31 March 2017 for Corporation Tax and 5 April 2017 for Income Tax.

Research & Development Allowance (RDA)

RDA gives relief of 100% for capital expenditure on R&D incurred during the course of the trade. To qualify expenditure must meet certain conditions set out by the Department of Business, Innovation & Skills. In general, it must seek to achieve an advance in science or technology.

Eligible R&D expenditure includes capital expenditure incurred in carrying out the R&D and for providing facilities (excluding the cost of land) or assets used by your employees for carrying out R&D.

A separate relief exists for revenue expenditure on R&D.