

*What is the*

# CAPITAL ALLOWANCES SUPERDEDUCTION?

**In the Budget on 3 March 2021 the Chancellor announced two new first year allowances. The first is a superdeduction of 130% on qualifying plant and machinery, and the second is a 50% first year allowance on qualifying special rate assets.**



## **Who qualifies for the relief?**

To qualify for either allowance, the expenditure needs to be made by a company within the charge to Corporation Tax. As such, sole traders and partnerships will not qualify.

## **Which expenditure qualifies for the relief?**

The expenditure must be on new and unused items: secondhand purchases will not qualify. The categories of qualifying expenditure for the 130% superdeduction are very broad and include plant, machinery, computer equipment, furniture, software and vans. Cars do not qualify.

Purchases qualifying for the 50% deduction are those which would normally be treated as 'special rate' assets with a lower rate of capital allowances:

- Air-conditioning and air-cooling systems
- Hot and cold-water systems
- Electrical systems, including lighting systems
- External solar shading
- Lifts, escalators and moving walkways
- Space and water heating systems
- Thermal insulation of buildings

## **When does expenditure need to be incurred?**

Expenditure should be made between 1 April 2021 and 31 March 2023. The contract can't have been entered into prior to 3rd March, when the superdeduction and 50 first year allowance were announced. Hire purchase contracts are included as qualifying expenditure provided the asset is in use by the year end.

## **What about the Annual Investment Allowance?**

The Annual Investment Allowance ("AIA") currently gives a 100% deduction on expenditure up to £1m. It has recently been confirmed that this limit will remain until 31 December 2021. It would therefore make most sense to claim the superdeduction on expenditure qualifying for the 130% deduction, and use AIA for special rate expenditure. The 50% first year allowance could then be claimed on expenditure in the special rate pool above £1m.

## **What if we sell the asset?**

The rules are complex in this area but, broadly speaking, if the superdeduction is claimed and the asset is then sold before 31 March 2023, a balancing charge will be payable in order for the enhanced relief to be clawed back. Similar rules apply to the 50% first year allowance.

## **Are there any action points for our business?**

Where the capitalisation policy means that certain assets are not capitalised, it may be worth revisiting this to establish whether all assets should be capitalised so that 130% superdeduction can be claimed rather than a 100% P&L deduction.

**For a free discussion of how the new allowances could save your business, contact Dixcart on [hello@dixcartuk.com](mailto:hello@dixcartuk.com).**