

## **Disposal of super-deduction assets (Lecture B1307 – 26.13 minutes)**

### *The 130% and 50% super-deductions*

S.9 FA 2021 introduced two temporary forms of first year allowance (FYA) for capital expenditure on plant or machinery known as:

1. the 130% super-deduction; and
2. the 50% super-deduction.

There are five conditions which must be satisfied in order for expenditure on plant or machinery to qualify for the 130% FYA:

1. The expenditure must be incurred on or after 1 April 2021 but before 1 April 2023;
2. The expenditure must be incurred by a company. The relief is not available for unincorporated businesses;
3. The expenditure must relate to plant or machinery which is unused and not second-hand;
4. The expenditure must not fall within any of the general exclusions in S46(2) CAA 2001. For example, it must not be incurred:
  - in the accounting period in which the company's activities are permanently discontinued; or
  - on the provision of a car
5. The expenditure must not be special rate expenditure. This category covers expenditure on:
  - thermal insulation;
  - integral features;
  - long-life assets; and
  - solar panels

The second super-deduction – given at 50% – is available for expenditure on plant or machinery which normally attracts writing down allowances (WDAs) at 6% on a reducing balance basis, i.e. the items referred to in 5. above. The remaining conditions for this 50% FYA mirror those in 1. To 4. above.

### *No relief for pre-3 March 2021 contracts*

Where a contract for the provision of plant or machinery was entered into before the date of last year's Budget (3 March 2021), any expenditure incurred as a result of this contract is specifically excluded from qualifying for the 130% and 50% reliefs.

### *A reduced super-deduction*

Where a company incurs super-deduction expenditure in an accounting period which ends on or after 1 April 2023, the 130% relief is substituted by a lower figure (S11 FA 2021). The determination of the relevant percentage is illustrated below.

#### Illustration 1

Russell Industries Ltd has a 12-month accounting period to 31 December 2023.

The company's modified rate of FYA relief for plant or machinery purchased prior to 1 April 2023 is calculated as follows:

1. Take the total number of days in the period prior to 1 April 2023 (90) and divide this by the total number of days in the accounting period (365); then
2. Multiply 90/365 by 30 (this produces 7.397); and
3. Add 100 to the result, giving a relief of 107.397% for qualifying expenditure incurred during the first three months of the company's accounting period.

### *Disposal of assets attracting 130% FYA*

S12 FA 2021 is in point where:

1. a company incurred expenditure on plant or machinery in respect of which a 130% FYA was claimed; and
2. there is subsequently a disposal of all or part of that plant or machinery.

In these circumstances, the company making the disposal is liable to a balancing charge in the accounting period in which the disposal event took place (regardless of whether or not the company is also liable to any other balancing charge for that period).

The rationale for this rule is straightforward. If A Ltd bought an asset for £60,000 on 1 March 2022 and claimed a 130% FYA for its year ended 31 March 2022, this would have the effect of reducing the company's taxable profits by  $130\% \times £60,000 = £78,000$  for that accounting period. However, if A Ltd then sold the piece of equipment two months later for the same price, sale proceeds of £60,000 would normally be deducted from the tax written down value of the capital allowances pool for the year ended 31 March 2023 so that the company would have ended up obtaining tax relief of £18,000 at no economic cost. Clearly, this was never going to be permitted.

Accordingly, the asset's sale proceeds are treated as a separate taxable receipt (i.e. they are not deducted from the capital allowances pool) and, in order to ensure a proper symmetry, they must be multiplied by what S12(6) FA 2021 calls a 'relevant factor'. This is 1.3 if the accounting period in which the disposal takes place ends on or before 31 March 2023. If this period straddles 31 March 2023 (but only up to 30 March 2024 at the latest), the tapered rate illustrated above is used. For subsequent accounting periods, the sale proceeds are brought in without any uplift.

### *Illustration 2*

Arthur Antiques Ltd has an accounting date of 31 December. The company incurred expenditure of £1,600 on a new computer on 1 September 2022 and therefore claimed a super-deduction of  $130\% \times £1,600 = £2,080$  in respect of its accounting period ended 31 December 2022.

The computer is sold for £750 on 1 July 2025. This disposal event is liable to a balancing charge. The amount of the balancing charge to be brought into account for the accounting period ended 31 December 2025 is £750.

The tax relief retained by the company is  $£2,080 - £750 = £1,330$ . Even if Arthur Antiques Ltd has a substantial tax written down balance in its main capital allowances pool, this will not be available to shelter the balancing charge.

Alternatively, if the computer had been sold for £750 on 1 July 2023, the balancing charge would have been  $107.397\% \times £750 = £805$ .

An important consequence of this regime is that assets which benefit from the 130% super-deduction are not added to the main pool for capital allowances purposes. They must be tracked individually. Companies have to maintain detailed records of the various assets acquired over the qualifying two-year period so that they can be identified when they are disposed of. Commercial corporation tax software will facilitate this.

The next aspect to consider is a disposal which follows a partial 130% FYA claim. This is illustrated below.

### *Illustration 3*

Edward Engraving Ltd has an accounting date of 31 December. The company incurred expenditure of £100,000 on a new machine for its engraving factory on 1 October 2022.

The company claimed a 130% FYA on £75,000 of this expenditure ( $130\% \times £75,000 = £97,500$ ) in respect of its accounting period ended 31 December 2022. The remaining balance of the expenditure ( $£100,000 - £75,000 = £25,000$ ) was added to the main capital allowances pool.

The machine was sold for £62,000 on 1 November 2025. This disposal event gives rise to a balancing charge. However, before the taxable credit can be determined, it is necessary to establish what S12(3) FA 2021 calls the 'relevant proportion'.

The relevant proportion is calculated by dividing the amount of the 'relevant super-deduction expenditure' incurred in respect of the plant or machinery by the amount of the 'total relevant expenditure' in relation to that plant or machinery (S12(4) FA 2021).

By virtue of S12(5) FA 2021, the relevant super-deduction expenditure is the amount of expenditure in respect of which a super-deduction has been claimed (i.e. £75,000). And the total relevant expenditure is the amount of expenditure incurred on the provision of the plant or machinery covering the following categories:

- the relevant super-deduction expenditure (£75,000);
- expenditure in respect of which any other FYA was made (£0); and

- expenditure which was allocated to a capital allowances pool for any accounting period, including the period in which the disposal event occurs (£25,000).

The relevant proportion is therefore  $75,000 / 75,000 + 25,000 = 0.75$ .

The relevant proportion is multiplied by the disposal value of £62,000 which results in a balancing charge of  $0.75 \times £62,000 = £46,500$ .

The remaining £15,500 of the disposal value of £62,000 is deducted from the main capital allowances pool in the normal way (and may of course give rise to a further balancing charge).

#### *Disposal of special rate assets attracting 50% FYA*

A similar treatment applies to the disposal of special rate assets which have qualified for the 50% relief (S13 FA 2021). In such cases, the standalone balancing charge is the relevant proportion (i.e. normally 50%) of the disposal value of the plant or machinery. For example, let us assume that a company with a 31 March year end purchased new solar panels in February 2022 for £240,000 and claimed a 50% FYA. This would come to £120,000. The balance of the company's expenditure will be included in the special rate pool. If the solar panels were sold for £44,000 in September 2025, this would give rise to a balancing charge of  $50\% \times £44,000 = £22,000$  for the year ended 31 March 2026. The remaining disposal proceeds of £22,000 would be deducted from the balance in the special rate pool before the calculation of the WDA for the year ended 31 March 2026.

*Contributed by Robert Jamieson*