

Finance Bill: Changes to capital allowances

(Lecture B1197 – 10.30 minutes)

Structures and Building Allowance

Structures and Buildings Allowance was introduced in the 2018 Budget and allows businesses to claim a flat rate allowance for the costs of construction of qualifying buildings and structures.

Clause 28 increases the rate of Structures and Buildings Allowance to 3% p.a. from 1 April 2020 for companies and 6 April 2020 for unincorporated businesses. This reduces the period over which relief will be given to 33 1/3 years rather than 50 years. This means that there will be a 'catch-up' for some businesses which have been claiming the 2% amount already.

Businesses with accounting periods straddling these dates will need to time apportion the allowance accordingly.

Example

A company has a year end of 31 December. The rate of SBA for the year ended 31 December 2020 would be 2.75(1)% (being $91/366 \times 2\%$ plus $271/366 \times 3\%$).

If a person is entitled to an allowance at the relevant date (31 March 2020 for corporates or 5 April 2020 for unincorporated businesses) any shortfall in allowance by virtue of the reduction in the qualifying period is available to them in the final period when they are claiming the relief assuming that they have not disposed of their relevant interest in the property.

Example

A company with a 31 March year-end incurs £1m of expenditure eligible for SBA on 1 April 2019.

The company can claim £20,000 ($2\% \times £1$ million) of SBA in the period ended 31 March 2020.

Each year after that they would be able to claim £30,000.

The final year in which they could claim the SBA would be the year ended 31 March 2053 (33.33 years after they started claiming).

They would have claimed £980,000 at this stage (32 years \times £30,000 + 1 year \times £20,000). The final year claim would be the balance of expenditure not yet relieved. i.e. £20,000.

Clause 29 introduces Sch.4 which also make some miscellaneous amendments to the SBA rules.

Where there is a sale of a property on which SBA has been claimed, there is a restriction on the amount of SBA available to the purchaser where Research and Development Allowances can be claimed on the same building.

There is also a restriction on the SBA where there is a sale of building on which RDA has been claimed when the purchaser pays less than the total remaining SBA available at the time of sale. This is to stop both allowances being available on the same building which was possible under the previous wording.

Changes are made to enable contributions allowance to be claimed for a contribution to expenditure incurred by a public body with the allowance being due when the public body brings the asset into qualifying use or non-residential use if earlier (as long as the use is not insignificant) and provided that the person making the contribution has no relevant interest.

If the public body later sells its relevant interest, the contributor is not treated as selling its interest and can continue to claim SBA.

Changes to allowances for cars from April 2021

A 100% FYA will only apply to the purchase of a new zero-emission car from April 2021.

A car with emissions of up between 1 and 50g/km will qualify for 18% general pool writing down allowances and all other cars will only qualify for the 6% special-rate pool writing down allowances.

Other capital allowance changes

The 100% FYA for zero-emission goods vehicles and natural gas and hydrogen refuelling equipment is extended until April 2025.

The 100% FYA on plant and machinery expenditure in Enterprise Zones is extended to 31 March 2021 (it was due to expire on 31 March 2020).

Annual investment allowance

The Budget press releases confirm that the AIA will fall back from £1 million to £200,000 for expenditure incurred from 1 January 2021.

There are transitional rules which are particularly harsh when the AIA limit decreases.

Businesses therefore need to plan their capital expenditure carefully around end of the calendar year, or they could delay the availability of allowances significantly.

Example

A company has a year end 31 March 2021.

The total maximum AIA for the period will be $(£1,000,000 \times 275/365) + (£200,000 \times 90/365)$, i.e. £802,739.

For expenditure between 1 April 2020 and 31 December 2020, the actual maximum expenditure that can qualify for AIA is the £802,739.

But the maximum expenditure that can qualify between 1 January and 31 March 2021 is only $(£200,000 \times 90/365)$ £49,315.

If the incurred expenditure on plant and equipment for £750,000 on 31 December 2020 it would qualify for 100% AIA, saving £142,500 in corporation tax for the period.

If the expenditure was incurred on 2 January 2021, the business would only get allowances of £49,315 AIA plus 18% x (£750,000 - £49,315) in writing down allowances, i.e. £175,438, which would only save £33,333 in corporation tax.

Getting the timing wrong would cost the company extra tax for its year ended 31 March 2021 of (142,500 - 33,333) £109,167.

It would then receive 18% on the reduced balance the following years.