

Permanent full expensing planning points (Lecture P1464 – 16.26 minutes)

F(No2)A 2023 brought in temporary capital allowances which comprised a 100% First Year Allowance (FYA) for main rate expenditure and a 50% FYA for special rate expenditure (e.g. on integral features, long-life assets, solar panels and thermal insulation). These allowances, which are only available for companies, originally had effect for expenditure incurred on or after 1 April 2023 but before 1 April 2026.

However, FA 2024 removed the requirement that the relevant expenditure had to be incurred before 1 April 2026 and so this form of relief is now permanently available (subject to any changes being made in the Budget on 30 October 2024). A further important rule is that the company's plant or machinery must be new and unused.

Disposals of plant or machinery for which a 100% FYA or a 50% FYA has been claimed are subject to an immediate balancing charge, equal to:

- the whole of the disposal value in the case of a 100% FYA; and
- 50% of the disposal value in the case of a 50% FYA.

With regard to this latest regime, there are two planning points involving 100% AIAs (if available) which can be helpful:

- for main rate items, it may be preferable to claim 100% Annual Investment Allowances (AIAs) rather than 100% FYAs on acquisition so that the immediate balancing charge rule on a subsequent disposal does not apply (see Example 1); and
- for special rate expenditure, it will often be more tax-efficient to claim 100% AIAs rather than 50% FYAs (see Example 2).

Example 1

On 1 June 2024, Brendan Furniture Ltd, which is a family-owned company with a 31 December accounting date, incurred expenditure of £30,000 on a new lathe.

This purchase was not a success and so the company sold it for £12,000 on 1 September 2025.

The company's main capital allowances pool stood at £17,500 on 1 January 2025.

If Brendan Furniture Ltd had gone down the full expensing route, it would have claimed a 100% FYA of £30,000 in respect of the year ended 31 December 2024, but, during the following accounting period, the disposal would have triggered a balancing charge of £12,000 in the year ended 31 December 2025.

On the other hand, if Brendan Furniture Ltd had opted for a 100% AIA claim (for which the company had ample capacity), there would still have been a capital allowances deduction of £30,000 for the year ended 31 December 2024, but the main pool position for the following year would have been very different.

Thus:

£

WDV b/f	17,500
Less: Sale proceeds	<u>12,000</u>
	5,500
Less: WDA (18%)	<u>990</u>
WDV c/f	<u>4,510</u>

In other words, instead of Brendan Furniture Ltd having a balancing charge of £12,000 and a WDA of $18\% \times £17,500 = £3,150$ for the year ended 31 December 2025, there would be no balancing charge and a WDA of £990.

Example 2

Glenn Industries Ltd spent £66,000 on a new lighting system for one of its workshops during its year ended 30 June 2024.

This counts as special rate expenditure and would normally attract a 50% FYA.

However, the expenditure is also eligible for a 100% AIA (and the company is nowhere near its £1,000,000 annual limit).

It will therefore be better for Glenn Industries Ltd to claim AIA relief of £66,000 for its accounting period to 30 June 2024 rather than $50\% \times £66,000 = £33,000$ FYA relief.

Contributed by Robert Jamieson