

Finance Bill 2023 - Capital allowances (Lecture B1372 – 15.07 minutes)

First year allowances

Clause 7 provides for a new section to be inserted into CAA2001, being s45S, which gives a new first-year allowance for plant and machinery.

S45S gives the allowance where the following conditions are met:

- Expenditure is incurred on or after 1 April 2003 but before 1 April 2026;
- It is incurred by a company within charge to corporation tax;
- It is expenditure on plant and machinery which is new and unused;
- It is not excluded by virtue of disqualifying arrangements (new s45T) or by the general exclusions which apply to first-year allowances.

As a reminder, the general exclusions of s46(2) CAA 2001 are:

- Expenditure incurred in the period when the trade is discontinued,
- Cars (including electric cars)
- Long-life assets
- Lessors
- Where the expenditure is connected with a change in the nature or conduct of the trade or business by someone other than the purchaser of the asset and obtaining a first-year allowance is one of the main benefits from making the change
- Plant and machinery bought initially for a non-qualifying activity (or used for a long funding lease), then later used in a qualifying activity
- Plant and machinery used previously for one property letting business (including furnished holiday lettings) and then used for another property letting business where the market value is used to determine the expenditure for the new property letting business.

Note that there is an exemption from the general exclusions (so FYA would be available) where the plant or machinery is provided for leasing under an excluded lease of background plant or machinery for a building.

Disqualifying arrangements are within s45T if:

- The main purpose or one of the main purposes of the arrangements is to enable the expenditure to qualify under these provisions and
- It is reasonable to conclude that the arrangements include steps that are contrived, abnormal or lacking a genuine purpose or designed to exploit any shortcoming of the legislation.

The first-year allowance where this legislation applies is 100% for expenditure which is not special rate expenditure and 50% for expenditure which is special rate expenditure. The normal definitions of these items apply subject to the exclusions highlighted above.

A balancing charge will always arise on the disposal of an asset which falls within these provisions (new s59A and s59B CAA2001). This is equal to 100% of the proceeds of sale for any plant on which 100% FYA was claimed and 50% of the proceeds for any plant on which the 50% FYA was claimed, with the balance of proceeds coming off the pool. Note that, like with super-deduction expenditure, the effect of these rules is that, although the expenditure will have gone into the appropriate pool, business records will need to allow each individual item of expenditure to be tracked.

There are also anti-avoidance provisions (s59C CAA2001) where arrangements are entered into where the main purpose is the avoidance or reduction of a balancing charge on disposal of these assets.

Annual investment allowance

Clause 8 confirms that the higher level of annual investment allowance (AIA) of £1m per annum will continue beyond 1 April 2023. There is no end date on this. There are no transitional provisions to consider as the AIA has been at this level for some time.

Electric vehicle charge points

Clause 9 confirms that the availability of 100% FYA on electric vehicle charging points within s45EA CAA2001 is extended to 31 March 2025, having been due to expire on 31 March 2023.

Analysis of the capital allowances changes

The new FYA regime seems superfluous other than for large companies with high CAPEX on P&M, as most businesses will simply claim AIA on expenditure. If you can claim either, then it is up to each company which they wish to claim. There may be an advantage to claiming AIA if there is residual expenditure in the pool as the expenditure is pooled (even though there is nil value to be added to the pool) and disposal proceeds will be deducted from the pool, so there may be reduced balancing charges if the asset is then sold than under the FYA regime. With special rate pool expenditure, it will be better to claim AIA at 100%, where that is available, rather than FYA at only 50%.

Example of interaction

We have a company that has incurred expenditure as follows:

- £63,258 on a new machine for its factory
- £49,377 on a second-hand machine for its factory
- £22,000 on replacing and upgrading a lift in its office block
- £42,190 on a car with CO₂ emissions such that it falls within the main rate pool.

The tax written down value of the pool at the beginning of the year is £22,654 for the main pool and nil for the special rate pool.

Capital allowances position

The new machine is eligible for both AIA and the new 100% FYA. The only difference is in how the eventual disposal will be treated. By claiming AIA, the proceeds will come off the pool on sale, thus potentially reducing any balancing charge.

The second-hand machine is eligible for AIA. So full relief is available and the nil residue goes into the pool. Note that the new FYAs are not available on second-hand assets.

The lift will fall within the special rate pool and would be eligible either for AIA or 50% FYA. It will clearly be better to claim under AIA as the whole of the value can be relieved in the year of acquisition.

The car is not eligible for FYA or AIA and so goes into the main pool and 18% WDA can be claimed on the total.

Maximum allowances are therefore going to be £63,258 + £49,377 + £22,000 + ((£22,654 + £42,190) x 18%) = £146,307. This is exactly the same as would have been available if the new FYA had not been introduced!

Effectively, the new rules only benefit companies with P&M expenditure exceeding the AIA available.

If in the following year, the new machine had been found to be obsolete, and is sold for £25,000, the capital allowance position would be:

1. If the FYA had been claimed, a balancing charge of £25,000. TWDV of pool would be £53,172 and so the 18% allowance for the year would be £9,571. This would give a net charge of £15,429 and a TWDV carried forward of £43,601.
2. If AIA had been claimed, no balancing charge would arise but the pool would be reduced to £28,172 and WDA for the year would be £7,043. TWDV carried forward would be £21,129.