

CAPITAL ALLOWANCES – NEW RATES

Who is affected?

Businesses investing in plant & equipment and other ‘qualifying assets’ from April 2012.

What are “capital allowances”?

Capital allowances allow a business to write off the costs of capital assets, such as plant and machinery, against its taxable income. They take the place of commercial depreciation, which is not allowed for tax, to ensure that all businesses get a standard rate of tax relief on their investment.

Annual Investment Allowance

In the tax years 2010/11 and 2011/12, businesses purchasing ‘qualifying plant and machinery’ are able to write the investment off for tax purposes up to total purchase costs of £100,000.

The maximum amount that can be written off fully in the first tax year will reduce to £25,000 from 2012/13 onwards.

Writing Down Allowance

Acquisitions that have not qualified for the Annual Investment Allowance are generally written down for tax purposes at 20% per annum.

This rate will reduce to 18% for business years ending after 1 April 2012 for companies and 6 April 2012 for sole traders and partnerships. There will be transitional arrangements for businesses whose year end straddles the effective date.

Special Rate Assets

Special rate expenditure includes expenditure on long-life assets, thermal insulation, integral features and expenditure incurred on or after 1 April 2009 on cars with CO₂ emissions of more than 160g/km. Expenditure on qualifying assets can be written down at 10% per year.

The special rate allowance will reduce from 10% to 8% with effect from the same date as for the full writing down allowances. Transitional arrangements may again apply.

What action should I consider taking?

Business owners who plan to commit significant capital expenditure on plant and equipment, may wish to consider taking advantage of the higher rates and allowances available for qualifying expenses incurred before April 2012.

If you have any questions about the issues covered in this update or if you would like to discuss anything in more detail, we are here to help. Contact us on 01856 872983 or by e:mail at enquiries@ajbscholes.co.uk.