DECEMBER 2022

Super-deduction for capital expenditure

Deadline for qualifying expenditure

For a limited period companies are able to benefit from two additional first-year capital allowances – the super-deduction providing immediate relief for 130% of the qualifying expenditure and a 50% first-year allowance. However, time is running out to take advantage of these allowances.

Key dates

The super-deduction and the 50% first-year allowance are only available in respect of qualifying expenditure incurred by companies in the period from 1 April 2021 to 31 March 2023. Companies who wish to take advantage of the enhanced deduction offered by the super-deduction must incur the expenditure on or before 31 March 2023.

This note explains the nature of the super-deduction and when claiming it is worthwhile.

Nature of the super-deduction

The super-deduction is an enhanced first-year capital allowance that is available only to companies. It provides a deduction of 130% of the qualifying expenditure in the accounting period in which the expenditure is incurred. This means that where claimed, every £100 of qualifying expenditure will reduce taxable profits by £130. The effect of this is that every £100 invested by a company in qualifying expenditure will reduce the company's tax bill by £24.70 (100 x 130% x 19%).

When the asset is sold, a balancing charge will apply, calculated by reference to the disposal proceeds.

Qualifying expenditure

The super-deduction is available for expenditure that would otherwise benefit from a writing down allowance at the main rate of 18%. As with the annual investment allowance, expenditure on cars does not qualify for the super-deduction. To benefit, the expenditure must be incurred on or before 31 March 2023.

50% first-year allowance

The super-deduction is not available for qualifying expenditure that would otherwise qualify for writing down allowances at the special rate of 6%. This applies to items such as integral features, long-life assets, solar panels and thermal insulation. Instead, companies can benefit from a 50% first-year allowance where the expenditure is incurred in the period 1 April 2021 to 31 March 2023.

As the rate of this first-year allowance is less than the 100% deduction given by the annual investment allowance (AIA), it is only likely to be beneficial where the AIA limit of £1 million has been used up. Again, qualifying expenditure must be incurred no later than 31 March 2023 to benefit from the 50% first-year allowance.

Claims

Capital allowance claims are optional, and claims can be tailored. A claim for the super-deduction does not have to be made for the full amount of the expenditure if this is not beneficial; it is permissible to claim the super-deduction for part of the expenditure and writing-down allowances for the balance. This may be preferable if the intention is to sell the asset in a few years to reduce the balancing charge on disposal.

Companies claiming the super-deduction should make the claim in their company tax return.

Is a claim worthwhile

Where expenditure has already been incurred, a claim for the super-deduction is likely to be beneficial as it will deliver an enhanced deduction for the expenditure, reducing the company's tax bill in the process.

However, if a company is planning significant investment and is considering incurring the expenditure before 31 March 2023 to benefit from the super-deduction, they also need to consider the impact of the corporation tax reforms that come into effect from 1 April 2023.

If the company has profits in excess of £250,000, from 1 April 2023, they will pay corporation tax at a rate of 25%. Where this is the case, if they claim the AIA, for every £100 of qualifying expenditure incurred on or after 1 April 2025, they will save tax of £25 (£100 @ 25%). This is slightly more than the tax saving of £24.70 for every £100 of qualifying expenditure incurred prior to 1 April 2023 in respect of which the super-deduction is claimed.

Where a company's effective corporation tax rate will be less than 24.7% from 1 April 2023, incurring the qualifying expenditure before 1 April 2023 and claiming the super-deduction will give the best result. Where their effective rate will be higher than this, they will save more tax if they incur the expenditure on or after 1 April 2023 and claim the AIA (provided the available AIA limit is sufficient to cover the full amount of the expenditure).

As always, the decision to purchase capital equipment should however be made as a business case only. Do not buy something unless you need it, or it improves the capacity/efficiency of your business.

Please call if you need help with any of the issues raised in this alert.