Broadcast

FACTSHEET: CHANGES TO CAPITAL ALLOWANCES FROM APRIL 2023

SPECIAL ISSUE

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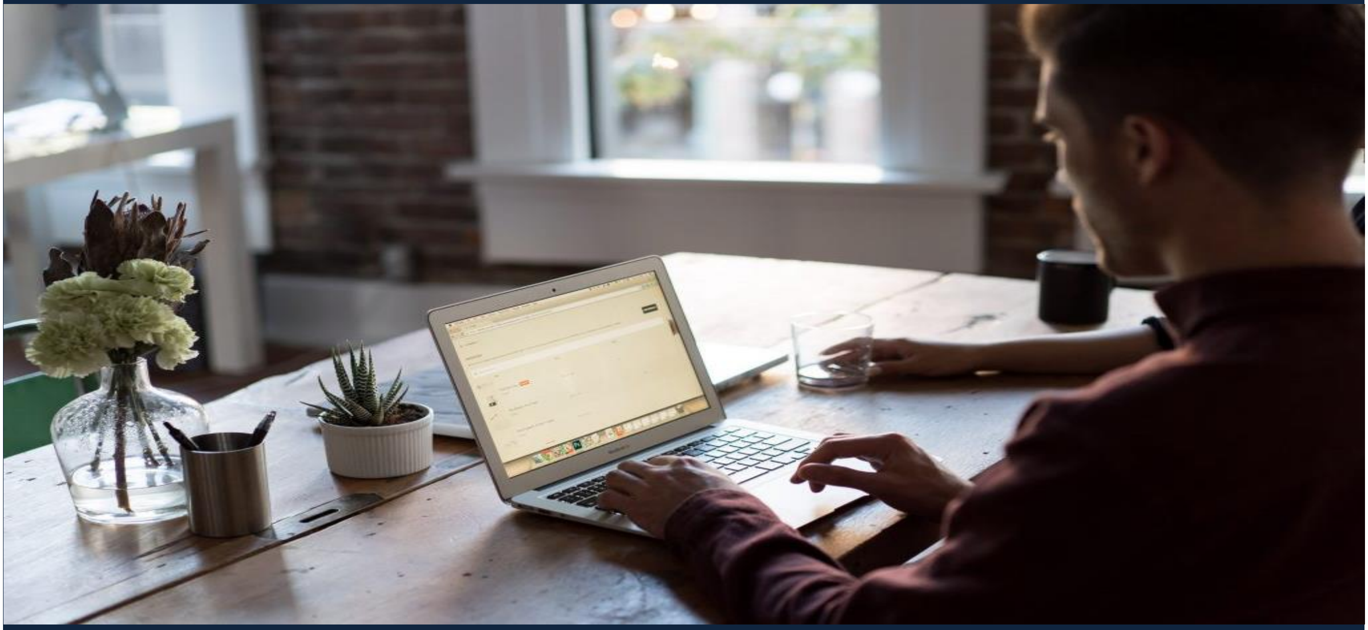

The Chancellor, Jeremy Hunt, presented his Spring Budget on 15 March 2023. There were no changes to the income tax rates and thresholds, which had been announced previously. However, the Chancellor unveiled the successor to the capital allowances super-deduction which ends on 31 March 2023.

Key dates

The capital allowances super-deduction for companies is replaced by full expensing from 1 April 2023. Please note, the changes will only affect companies. Sole traders and partnerships do not qualify for the "full expensing" of capital purchases from 1 April 2023 but they can still claim the Annual Investment Allowance (AIA). The annual limit to qualify for the AIA is £1m of qualifying capital purchases.

This note highlights some planning points arising from this change.

Full expensing of capital expenditure

The super-deduction for companies ends on 31 March 2023. It is replaced by full expensing for capital expenditure from 1 April 2023. This applies only to companies and will be available in respect of qualifying expenditure incurred in the three-year period from 1 April 2023 to 31 March 2026. The expenditure which will qualify for full expensing is that which is eligible for main rate writing down allowances. A 50% first-year allowance will continue to apply for the same period for expenditure which is eligible for special rate capital allowances. Expenditure on cars does not qualify for first-year allowances.

Full expensing provides immediate relief for capital expenditure in full in the accounting period in which it is incurred. Unlike the annual investment allowance (AIA), there is no limit on the qualifying expenditure which can be deducted. Full expensing will therefore benefit companies who incur significant capital expenditure in excess of the AIA limit of £1 million. Likewise, there is no limit on the expenditure that will be eligible for the 50% first-year allowance.

Companies incurring significant capital expenditure have a choice of allowances. It should be remembered that capital allowances do not have to be claimed and can be tailored. Balancing charges will apply if the asset is subsequently sold as the disposal proceeds are brought into charge.

The super-deduction is an enhanced first-year capital allowance that allows companies to deduct 130% of the qualifying expenditure in the accounting period in which it is claimed. This provides the highest rate of relief, but time is very short to take advantage of this as unconditional contracts must be signed before 1 April 2023 in order to benefit.

From 1 April 2023, companies incurring expenditure eligible for main rate writing down allowances can receive 100% relief in the period in which it is incurred, either by full expensing or, where the expenditure for the year is less than £1 million, by claiming the AIA. Where significant capital projects are on the horizon with an annual cost in excess of £1 million, it would be advisable where possible to incur the expenditure before 1 April 2026 to benefit from immediate relief on the full amount.

Where a company incurs expenditure that would be eligible for the special rate writing down allowances, claiming the AIA is the best option where this remains available. Once this has been used up, claiming the 50% first-year allowance will provide the greatest deduction and secure relief at the earliest opportunity.

A reminder that full expensing and the 50% first-year allowance are not available to unincorporated businesses. However, the self-employed can benefit from immediate and full relief by claiming the AIA, the limit of which has been permanently set at £1 million.

We can help
Please call us on **01753 888211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.