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CAPITAL ALLOWANCE UPCOMING CHANGES TO BE AWARE OF

NAVIGATING THE 2026 CAPITAL ALLOWANCE SHIFT: STRATEGIES FOR UK BUSINESSES

Major updates to the UK's capital allowances regime come into force on 1 April 2026 (for companies) and 6 April 2026 (for unincorporated businesses). These changes represent a strategic pivot by the government to support specific sectors, such as leasing, while simultaneously slowing down the rate of tax relief for assets held in long-term pools.

CORE LEGISLATIVE CHANGES

1. Reduction in Writing Down Allowance (WDA): The main pool WDA rate will fall from 18% to 14%. This is a significant reduction that will primarily affect businesses with large unrelieved balances in their main pools or those purchasing second-hand assets that do not qualify for upfront first-year reliefs.
2. New 40% First-Year Allowance (FYA): Introduced from 1 January 2026, this permanent relief is designed to "fill the gaps" where other incentives fall short. Crucially, it applies to leasing businesses and unincorporated entities (sole traders and partnerships), groups previously excluded from "full expensing".
3. Extended EV Reliefs: 100% FYAs for zero-emission cars and electric vehicle charging points have been extended to 31 March 2027 for companies and 5 April 2027 for individuals.

SUMMARY OF KEY ALLOWANCE RATES (2026/27)

Allowance Type	Rate	Key Conditions/Exclusions
Annual Investment Allowance (AIA)	100%	Up to £1 million limit; includes used assets; excludes cars.
Full Expensing	100%	Companies only; new assets only; excludes leasing.
New First-Year Allowance (FYA)	40%	New assets from 1 Jan 2026; includes leasing and sole traders; excludes cars.
Main Pool WDA	14%	Applies to balance after FYA/AIA; reduced from 18%.
Special Rate WDA	6%	Unchanged; for long-life assets and integral building features.

PLANNING IMPLICATIONS FOR COMPANIES

For large corporates, Full Expensing remains the most powerful tool, offering 100% relief with no financial cap. However, the WDA reduction to 14% creates a "slower" recovery for any expenditure that slips into the general pool.

- Leasing Opportunities: Companies in the plant-hire or leasing sectors should prepare to utilise the new 40% FYA, which finally allows them to accelerate relief beyond the standard WDA.
- Hybrid Accounting: If your accounting period spans 1 April 2026, you must apply a hybrid WDA rate. For example, a company with a June 2026 year-end would use a blended rate (approx. 17%) to reflect the period before and after the change.

PLANNING IMPLICATIONS FOR SOLE TRADERS & PARTNERSHIPS

While 99% of smaller businesses will continue to see their capital spend fully covered by the £1 million AIA, the new rules offer vital support for those exceeding that limit.

- Timing of Investment: Unincorporated traders planning significant investments near the end of 2025 may benefit from waiting until 1 January 2026 to trigger the 40% FYA on any spend exceeding their AIA, rather than accepting the lower WDA rates.
- Second-hand Assets: Since the 40% FYA and Full Expensing only apply to new/unused assets, businesses purchasing used machinery should prioritise allocating their AIA to these items first to ensure 100% relief is achieved.

STRATEGIC CHECKLIST

- Ensure clear distinction between "Main Pool" and "Special Rate" items; the 40% FYA does not apply to special rate assets like air conditioning.
- Slower relief via the 14% WDA may impact the timing of tax payments.
- Take advantage of the 100% FYA for electric vehicles before the current extension expires in 2027.

WE CAN HELP

If you require further information of any issues raised in this article, please contact us. Call us on **01753 888 211** or email **info@nhllp.com**, we are here to help.