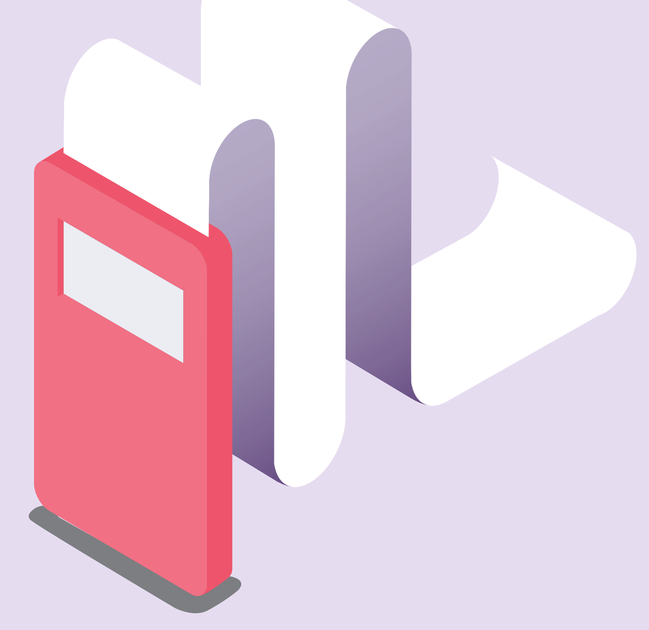
Capital allowance incentives



The chancellor, Rishi Sunak, has announced additional measures to incentivise business investment over the coming years. Used in combination with asset finance to purchase machinery and plant, the new packages could really help your business to grow. Here's a guide to what's included and who qualifies.

Super-deduction

What is it?

The government aims to encourage investment and boost productivity with this new allowance, announced in the 2021 Budget. **From 1 April 2021 to 31 March 2023**, companies can claim 130% capital allowances on plant and machinery investments that would usually qualify for 18% tax relief.

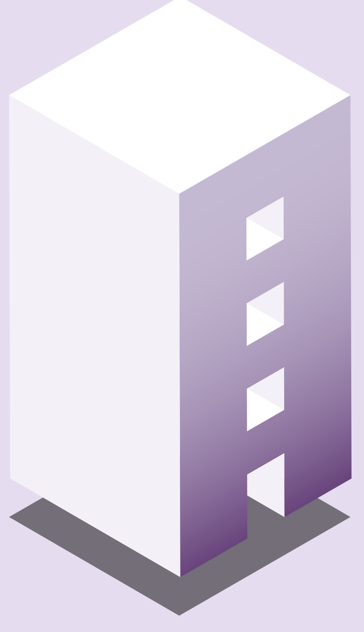
There is also a first-year allowance (FYA) of 50% for assets that would usually qualify for the special rate of 6% tax relief.

Save 25p in tax | for every £1 invested

The super-deduction means businesses can cut taxes by up to 25p for every £1 they invest. For example, a company investing £100,000 can claim a deduction of £130,000 against taxable profits, saving up to 19% of that – or £24,700 – on its corporation tax bill.

Who can claim?

Companies that pay corporation tax and which invest in plant or machinery on or after **1 April 2021** are eligible. Sole traders, partnerships and limited liability partnerships do not qualify.



What assets qualify?

The capital investment must be in **new and unused plant and machinery** and there is no expenditure limit. Assets can be funded via Hire Purchase, but cannot be leased as ownership of asset must be demonstrated.

Eligible assets for the super-deduction
- Cranes and diggers
- Machinery and tooling
- Computer equipment and servers
- Office furniture
- Commercial vehicles such as tractors, lorries and vans (not cars)

Eligible assets for the 50% FYA
- Electrical and lighting systems
- Hot- and cold-water systems
- Air-conditioning systems
- Lifts
- Solar shading

Ineligible assets
- Second-hand or used assets
- Cars
- Buildings and structures (excluding integral features)

Find out more about the super-deduction and 50% FYA allowance here: **gov.uk/guidance/super-deduction**

Annual Investment Allowance

What is it?

The Annual Investment Allowance (AIA) lets a business deduct 100% of the cost of certain assets from their taxable profits in the period in which the asset was purchased. It means a business can save £1 in taxable profits for every £1 spent. The upper limit of £1m has been extended until end of March 2023, after which it may revert to its previous limit of £200,000.

The AIA can apply to hire purchase but not lease-based assets. The allowance runs from 1 January 2022 to 31 March 2023. The measure is intended to have positive outcomes for businesses by supporting and encouraging business investment, particularly those ineligible for the super-deduction, and by simplifying the tax relief for such investment.

Save £1 in taxable profits | for every £1 spent

up to a maximum of

£1m

How do the super-deduction and AIA compare?

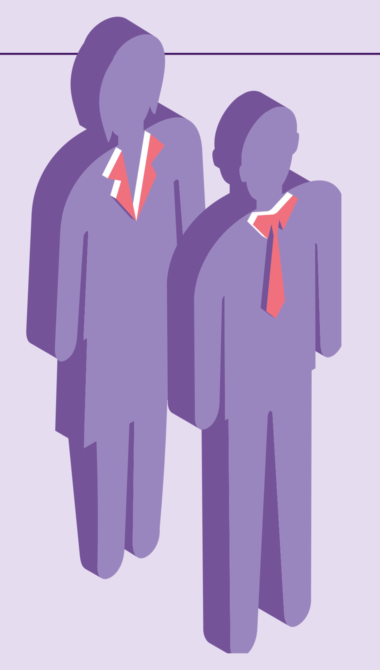
Example: a company incurring £500,000 of qualifying assets

Writing Down Allowances (WDAs)
Deducts £90,000 from taxable profit
(£500,000 x WDAs at 18%)
Tax saving 19% x £90,000 = **£17,100**

Annual Investment Allowance*
(Up to £1m until end March 2023)
Deducts £500,000 from taxable profit
(100% of cost can be deducted)
Tax saving 19% x £500,000 = **£95,000**

Super-deduction*
(No cap until end March 2023)
Deducts £650,000 from taxable profit
(£500,000 x 1.3 = 130% of asset cost)
Tax saving 19% x £650,000 = **£123,500**

This is an illustrative example. For specific tax advice, please speak to your accountant
**Exclusions and criteria apply*



Who can claim?

Any business, including sole traders, except for mixed partnerships (consisting of individuals and companies) and trustees.

What assets qualify?

Eligible assets
- Cranes and diggers
- Machinery and tooling
- Office furniture
- Computer hardware and qualifying software
- Commercial vehicles such as vans and trucks

Ineligible assets
- Cars
- Buildings and structures (excluding integral features)
- Leased assets
- Land
- Existing or gifted assets

Find out more about the Annual Investment Allowance here: **gov.uk/capital-allowances/annual-investment-allowance**

Freeports

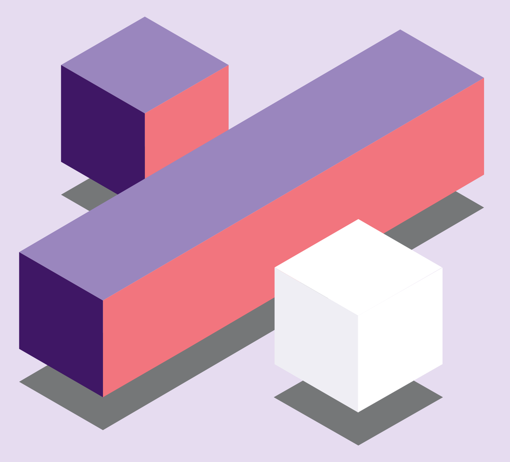
What are they?

Freeports are tax sites where the usual tax, customs and planning regulations do not apply. They are usually trade and transport hubs situated near maritime ports or airports.

Where will they be?

The eight new freeports will be in England, with further freeports in the rest of the UK under discussion. They will be situated in the following locations:

- East Midlands Airport
- Felixstowe and Harwich
- Humber
- Liverpool City Region
- Plymouth
- Solent
- Thames
- Teesside



What tax breaks will they offer?

For businesses operating within the freeports, the following capital allowances will apply to qualifying expenditure incurred once a freeport tax site has been designated and before 30 September 2026:

- Enhanced capital allowances of 100%, uncapped, for new and unused plant and machinery, and special-rate assets (usually 18% and 6%)
- Enhanced structures and buildings allowance of 10% for building or renovating non-residential buildings and structures (usually 3%)

Find out more about the proposed freeports in England here:
researchbriefings.files.parliament.uk/documents/CBP-8823/CBP-8823.pdf

The following tax relief will also apply:
- Stamp duty land tax relief on the purchase of land or property for a qualifying business
- Full business rates relief for new businesses and certain existing businesses
- Possible tax relief for employers in the form of lower national insurance contributions for eligible employees

Find out more about how NatWest could support your business growth with asset finance at **natwest.co.uk**

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