Subject: Super Deduction Tax Allowance

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SUPER DEDUCTION TAX ALLOWANCE

At the recent Spring Budget it was announced that a new temporary 130% capital allowance known as the 'super deduction' was being introduced.

The effect of the super deduction is that companies (not sole traders or partnerships) will be able to reduce their taxable profits by 130% of the cost of **new and unused plant and machinery purchased between 1 April 2021 and 31 March 2023**.

As an example, a company incurring £1m of qualifying expenditure can deduct £1.3m (130% of the investment) from its taxable profits. This will reduce the corporation tax bill by £247,000 (being £1.3m at 19%) and effectively gives tax relief at 24.7%. This rate has been designed to closely match the new corporation tax rate taking effect in April 2023 (25%) and compensate companies who invest in equipment before that time.

For accounting periods straddling **1 April 2023** the allowance will be time-apportioned. For example, if a company has a 12 month accounting period to 31 December 2023 the rate of relief would be: 90/365 x 30% = 7.4% + 100% = 107.4% for expenditure incurred in the period to 31 March 2023.

There is no limit on the amount of expenditure that can be claimed under the super-deduction.

However certain assets DO NOT qualify and these include:

- Used or second-hand plant and machinery
- Cars – this exclusion also appears to include new electric cars (which already qualify for 100% First Year Allowance)
- Assets leased out in the course of business
- Structures and buildings.
- Plant and machinery purchased after 1 April 2021 where contracts were entered into before **3 March 2021**.

Commercial vehicles such as vans are eligible for the super deduction.

On the sale of an asset for which the super-deduction has been claimed, the tax treatment will depend on when the asset is sold. This is complex but in simple terms if the asset sold after 31 March 2023 the company will be subject to corporation tax on the sales proceeds. If sold prior to 31 March 2023 the company will be subject to corporation tax on 130% of the sales proceeds.

It is worth mentioning that 100% tax relief can still be obtained on assets that don't qualify for the super deduction (used plant and machinery for example) by way of the annual investment allowance (AIA). The AIA expenditure limit of £1,000,000 has been extended to 31 December 2021.

Companies will not be able to claim the AIA and super deduction for the same expenditure.

In the same Budget the Government also announced a 50% First Year Allowance (FYA), covering the same period, for plant and machinery which would ordinarily only attract special rate capital allowances at 6%. This would include certain integral features in buildings such as air conditioning, electrical systems and water systems. However, depending on the situation, it may still be beneficial to claim the AIA instead of the FYA.

The Team at Allens