A guide to

The Capital Allowances Regime

A SIMPLE GUIDE OF PROPOSED CHANGES TO THE CAPITAL ALLOWANCES REGIME

This is a basic guide prepared by the Technical Advisory service for members and their clients. It is an introduction only and should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.

The capital allowances regime has undergone some significant changes in recent years. The most significant changes were introduced be Finance Act 2008 but further changes were also introduced in subsequent Budgets.

Changes to Capital Allowances since Finance Act, 2008

The changes introduced by the 2008 Finance Act were widespread. The key changes, and subsequent changes, are as follows:

- Introduction of an Annual Investment Allowance (AIA) and subsequent revisions to limit
- Removal of the First Year Allowance (FYA) for expenditure incurred after 5 April 2008 (although the 2009 Finance Act reintroduces first year allowances for a temporary period – see below)
- Continuation of the 100% Enhanced Capital Allowance
- Changes in the way Capital Allowances are calculated on expensive business cars, costing over £12,000
- Reduction in the Written Down Allowance (WDA) WDA for Integral fixtures
- Changes in the WDA for long life assets
- Phasing out of the Industrial Buildings Allowance (IBA) and Agricultural Buildings Allowance (ABA)

Annual Investment Allowance`

Annual investment allowance (AIA) was originally introduced in Finance Act 2008. AIA is available to small and medium-sized entities and entitles them to claim 100% relief on capital expenditure up to certain monetary limits. Since incorporation, the AIA threshold has changed twice and the appropriate limits are as follows:

Date expenditure incurred:	AIA Limit
Companies: 1 April 2008 – 31 March 2010 Unincoporated: 6 April 2008 – 5 April 2010	£50,000
Companies: 1 April 2010 – 31 March 2012 Unincoporated: 6 April 2010 – 5 April 2012	£100,000
Companies: On or after 1 April 2012 Unincoporated: On or after 6 April 2012	£25,000

If the basis period straddles 1 April for companies, or 6 April for unincorporated entities, the AIA must be time-apportioned accordingly.

Where a chargeable period straddles 1st or 6th April as appropriate (the 'relevant date'), the maximum AIA is time-apportioned by considering how much of the chargeable period falls before the relevant date and how much after.

However, so far as concerns expenditure actually incurred before the relevant date, the maximum is calculated as if the increase in AIA had not taken place. For example, in most cases (ignoring short accounting periods), for accounting periods straddling the 2010 "relevant date", this will mean that the maximum AIA for expenditure incurred before the relevant date will be restricted to £50,000

Example:

Acme Manufacturing Ltd has a year end of 31 December and during the period ended 31 December 2010 incurred the following capital expenditure during the period:

1 March 2010	New delivery truck	£ 30,000
1 November 2010	New lathe	£15,000

As the accounting period straddles 1 April 2010 and the AIA thresholds are different for the two component periods, the AIA threshold for each component period must be established, as follows:

1 January 2009 – 31 March 2010: £50,000 x 3/12 = £12,500

1 April 2010 – 31 December 2010: £ 100,000 x 9/12 = £75,000

The total permissible maximum AIA for the accounting period ended 31 December 2010 will therefore be £87,500; the maximum amount qualifying for AIA in the component period to 31 March 2010 being £50,000.

Consequently, in this example, the full amount of both purchases of plant and machinery, i.e. £45,000, qualifies for AIA.

Any expenditure in excess of the maximum AIA amount may be added to general pool and normal writing down allowances claimed.

An important point to note is that the AIA may be allocated in the most beneficial way.

Example:

Beaker Ltd incurs the following expenditure on plant and machinery during the year ended 31 December 2010:

- Additions to general pool £100,000
- Additions to reduced rate pool (see below) £100,000

Beaker Ltd should use its entitlement to AIA against the assets which attract the lower rate of writing down allowance first and claim the higher WDA on the additions to the general pool.

Enhanced Capital Allowance

100% allowances will continue to be available for environmentally beneficial plant and machinery. Included within these are water efficiency systems, energy saving heating and low emission cars, details of which are provided below.

First Year Allowances (FYA)

The FYA regime that existed before April 2008 was brought to an end following the introduction of the Annual Investment allowance with effect from April 2008,

However, Finance Act 2009 introduced a temporary first year allowance of 40% for expenditure on qualifying plant and machinery during the period from 1 April 2009 to 31 March 2010 for companies and from 6 April 2009 to 5 April 2010 for unincorporated entities.

Unlike the previous FYA regime, the temporary first year allowances are available to businesses of all sizes and not just small and medium-sized entities.

Writing Down Allowance (WDA)

Expenditure on qualifying plant and machinery, which is not eligible for either AIA or FYA is put into a pool of expenditure, on which writing down allowances (WDA) may be claimed. From 6 April 2008, there are two pools as follows:

- Main Rate Pool – for expenditure on general plant and machinery

- Reduced Rate Pool - for expenditure on the following:
  - integral features of buildings and structures, i.e:
  - an electrical system (including a lighting system);
  - a cold water system;
  - a space or water heating system, a powered system of ventilation, air cooling or air purification, and any floor or ceiling comprised in such a system;
  - a lift, escalator or moving walkway; or
  - external solar shading
  - expenditure on thermal insulation
  - expenditure on long-life assets (assets with an expected life of 25 years or more)
  - from 6 April 2009, expenditure on certain cars (see below).

Separate rates are applicable to the above pools and these are as follows:

	General Pool	**Reduced Rate Pool**
Up to 31 March 2008 (5 April 2008 for unincorporated businesses)	25%	N/A
1 April 2008 to 31 March 2012 (6 April 2008 to 5 April 2012)	20%	10%
From 1 April 2012 (6 April 2012 for unincorporated businesses)	18%	8%

Hybrid rates will need to be calculated if an accounting period straddles the date that the rate of WDA changes,

Example:

Javelin Ltd has an accounting period of 31 December. What would be its WDA rate for general pool for the year ended 31 December 2008?

3 months @ 25%	6.25%	
9 Months @ 20%		15.00%
Hybrid rate		21.25%

From 6 April 2008, if the residual vale of either the general pool or the reduced rate pool is less than £1,000, then a writing down allowance equal to the full amount of the pool may be claimed.

Business Cars

Rules before 1 April 2009 (6 April 2009 for unincorporated entities)

Prior to the change in the rules with effect from April 2008, the capital allowances regime for cars was as follows:

- Cars costing less than £12,000 went into the general pool
- Cars costing more than £12,000 or with private use were de-pooled
- The writing down allowance available on cars was the same as the general pool rate,
- The writing down allowance on cars was restricted to £3,000 if the cost or written down value brought forward exceeded £12,000

The above rules will continue to apply for cars acquired before 1 April 2008 (6 April 2008) for unincorporated entities) for accounting periods beginning before 1 April 2014 (6 April 2014). After this date, any written down value brought forward will be transferred into the main rate car pool described below.

From 1 April 2009 (6 April 2009 for unincorporated entities)

The rules were changed by Finance Act 2009 for cars purchased from 1 April 2009 (6 April 2009 for unincorporated entities). From that date, the capital allowances rates are dependant on the car's CO_2 emissions of the cars. The car will either be eligible for 100% first year allowances (FYA) or will go either into the general or reduced rate plant and machinery pools, as follows

CO_2 emissions of the Car:	Capital allowances
Cars with CO_2 emissions of 110g/km or less	100% FYA
Cars with CO_2 emissions of between 111g/km and 160g/km	General Pool
Cars with CO_2 emissions of 161g/km or more	Reduced rate pool

Under the new rules, the £3,000 restriction no longer applies, although this will continue to apply in respect of expensive cars acquired before 1/6 April 2008 during the transitional period.

Long Life Assets

From 6 April 2008 (1 April 2008 for unincorporated entities) assets with a life expectancy of more than 25 years will receive 10% capital allowances, reducing to 8% from April 2012. As with the WDA, a hybrid rate will apply for transitional periods for Long Life Assets, if appropriate.

Industrial Buildings Allowance and Agricultural Buildings Allowance (IBA) and (ABA)

The allowance of 4%, which was previously available prior to the changes in April 2008, will eventually be phased out by 1% each year, both of these allowances will be unavailable after four years, i.e. no allowance after 31 March 2011 for companies and 5 April 2011 for unincorporated business.

This is a guide for ACCA members to assist in understanding the new capital allowances regime and to provided assistance when dealing with clients or informing colleagues. This document has no regulatory status and provides and overview of the changes.

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