HANDLING EQUIPMENT UK LTD

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UK Government Full expensing (FE) Tax Scheme Now Permanent Until Further Notice

- Full expensing which began in April 2023 has **now been made permanent until further notice.** This means companies can continue to claim **100% capital allowances** on qualifying plant and machinery investments.
- Full expensing allows companies to write off the cost of investment in one go.
- Under full expensing, for every pound a company invests, their taxes are cut by up to 25p.
- It will ensure that the UK's capital allowances regime is world-leading.

1. The Capital Allowances offer

As a result of measures announced at the budget, businesses will now benefit from:

- Full expensing – which offers 100% first-year relief to companies on qualifying new main rate plant and machinery investments is **now permanent until further notice.**
- The 50% first-year allowance (FYA) for expenditure by companies on new special rate (including long life) assets is **now permanent.**
- The Annual Investment Allowance (AIA) providing 100% first-year relief for plant and machinery investments up to £1 million, which is available for all businesses including unincorporated businesses and most partnerships.

2. Why is the government introducing full expensing?

- Investment is a key driver of productivity growth but business investment has been a long-standing weakness in the UK – UK business investment accounted for 10.0% of GDP compared to the OECD average of 12.5% in 2021
- A competitive headline Corporation Tax rate – the UK has the lowest rate in the G7 – alongside generous investment incentives will reward businesses that invest and create the right conditions for sustained economic growth.
- The government introduced the super-deduction in 2021 – the biggest two-year business tax cut in modern British history – to encourage companies to make additional investments, and to bring planned investment forward as the UK recovered from the Covid-19 pandemic.
- Full expensing builds on the success of the super-deduction, allowing companies to write off 100% of the cost of investment in one go.

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- In the capital allowances survey last year, businesses showed a clear preference for full expensing over the other options under consideration, on the basis of its simplicity and generosity.
- As a result of this measure, the UK's capital allowances regime will be world-leading.
- A tax information and impact note for the policy is available.

3. What are capital allowances?

- Capital allowances are a type of tax relief for businesses. They let a business deduct some or all of the cost of an item from its profits before paying tax.
- There are different types of capital allowance including:
  - the Annual Investment Allowance (AIA) which allows businesses to claim 100% of the cost of plant and machinery up to £1m in the year it is incurred
  - Writing Down Allowances (WDAs) which spread the tax deductions over time at 18% and 6% a year for main rate and special rate expenditure respectively
  - First-Year Allowances (FYAs) which allow a company to claim a percentage of the cost of plant and machinery investments in the year it is incurred.
  - Structures and Buildings Allowances (SBAs) which allow a business to deduct 3% per year over 33 1/3 years for qualifying expenditure on non-residential structures and buildings.

4. How does full expensing work?

- Full expensing is a 100% first-year allowance which allows companies to claim a deduction from taxable profits that is equal to 100% of their qualifying expenditure in the year that expenditure is incurred.
- Expenditure must be incurred on the provision of "main rate" plant or machinery on or after 1 April 2023.
- Full expensing is available to companies subject to Corporation Tax only. Therefore, unincorporated businesses cannot claim, but such businesses are entitled to claim the AIA which offers the same benefits as full expensing for the investments it covers (up to £1 million per year).
- The plant and machinery must be new and unused, must not be a car, given to the company as a gift, or bought to lease to someone else.

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- Expenditure on second-hand assets and those bought to lease to someone else can still qualify for the AIA.
- For "special rate" expenditure, which doesn't qualify for full expensing, a 50% first-year allowance can be claimed instead, subject to the same conditions that apply for full expensing. This means that a company can claim a deduction from taxable profits that is equal to 50% of their qualifying expenditure in the year that expenditure is incurred. Capital allowances can be claimed on the balance of expenditure in subsequent accounting periods at the 6% rate of WDAs for special rate expenditure.
- There is further information on the difference between "main rate" and "special rate" in HMRC's guidance pages. This guidance will be updated as soon as possible to help businesses determine whether their investments qualify or not.

5. What is plant and machinery?

Most tangible capital assets, other than land, structures and buildings, used in the course of a business are considered plant and machinery for the purposes of claiming capital allowances.

Plant and machinery that may qualify for full expensing includes (but is not limited to):

- machines such as computers, printers, lathes and planers
- office equipment such as desks and chairs
- vehicles such as vans, lorries and tractors (but not cars)
- warehousing equipment such as forklift trucks, pallet trucks, shelving and stackers
- tools such as ladders and drills
- construction equipment such as excavators, compactors, and bulldozers
- some fixtures such as kitchen and bathroom fittings and fire alarm systems in non-residential property.

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6. What happens when a company sells an asset?

If a company sells an asset on which it has claimed either full expensing or the 50% first-year allowance, there are special disposal rules which apply.
For the disposal of an asset on which a company has claimed full expensing, the company will be required to bring in an immediate balancing charge equal to 100% of the disposal value. This means that if the company sold an asset for £10,000 on which they had claimed full expensing, they would be required to increase their taxable profits by £10,000.
For the disposal of an asset on which a company has claimed the 50% first-year allowance, the company will be required to bring in a balancing charge equal to 50% of the disposal value. The remaining balance of 50% is treated in the normal way so is deducted from the special rate pool balance. This means that if the company sold an asset on which they had claimed the 50% first-year allowance for £10,000, they would be required to increase their taxable profits by £5,000 with the remaining £5,000 being deducted from the pool.

7. Example of full expensing and 50% first-year allowance

A company incurs expenditure on a new state-of-the art production line including £10 million on various items of main rate plant and machinery. In addition, the company spends £2 million installing a brand-new electrical system, which is special rate expenditure. Because of the new full expensing and 50% first-year allowance, the company can claim £10 million under full expensing and £1 million under the 50% first-year allowance in the year the expenditure is incurred. The remaining balance of £1 million can be added to the special rate pool in a subsequent accounting period.