

Super Deduction Capital Allowances

What is the Super Deduction initiative?

The UK Government announced the super deduction capital allowances in the Spring 2021 budget to stimulate business investment and promote economic growth. The super deduction helps UK businesses save money on their tax bill when they invest in eligible assets.

The super deduction means that until 31 March 2023 companies can claim 130% capital allowances on qualifying plant and machinery investments that would typically qualify for 18% tax relief on the main rate. In addition to the super deduction, there is a 50% first year allowance (FYA) on special rate long life assets until 31 March 2023 which would typically qualify for 6% tax relief.

Features and Benefits

By taking advantage of the new super deduction and investing in eligible assets before 31 March 2023, businesses can save up to 24.7p for every pound they invest.

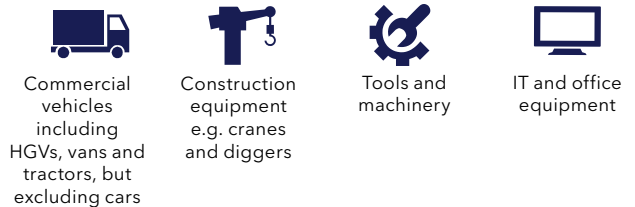
The super deduction works like this:

- ▶ A company spending £1m on eligible assets claims the super deduction.
- ▶ £1m of investment means that the company can deduct £1.3m (130%) from its taxable profits.
- ▶ Deducting this £1.3m from taxable profits will save the company up to 19% of this amount (£247,000) on its corporation tax bill. This is a saving of 24.7p for every pound invested.

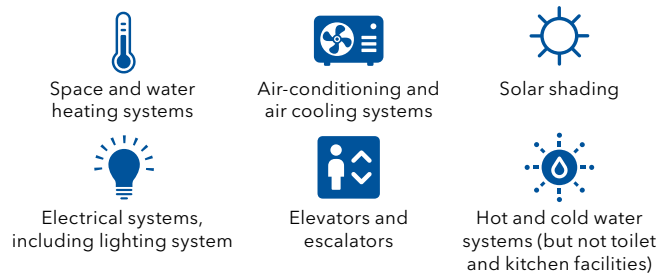
What is in scope?

Most tangible assets used in the course of a business are considered in scope. The super deduction and FYA can be applied to new and unused assets, including assets on hire purchase, but cannot be applied to assets held for leasing.

Assets that qualify for the super deduction include (but are not limited to):



Assets that qualify for the FYA include (but are not limited to):



Assets that are ineligible for capital allowances include:





Companies, which pay corporation tax, could benefit from the super deduction and FYA. Individuals, Partnerships and Limited Liability Partnerships (LLPs) may be eligible for the Annual Investment Allowance (AIA).

How does Super Deduction and FYA work?

All examples assume a corporation tax rate of 19%. The calculation for total tax saving is the corporation tax rate multiplied by the total value of deduction. The calculation for tax savings per £1 spend is simply the total tax saving divided by the initial investment.

If you would like to find out more about the super deduction and 50% FYA you can visit the UK Government guidance page and discuss capital allowances with your accountant or tax advisor. For more information on AIA you can visit the UK Government AIA page.


	Example 1 Super-Deduction (£1m or less expenditure)		Example 2 Super-Deduction (Greater than £1m expenditure)	
Expenditure	 Company A purchases construction equipment to the value of £1,000,000		 Company B purchases HGVs to the value of £2,000,000	
Tax saving options	Option A (Super-Deduction)	Option B (AIA)	Option A (Super-Deduction)	Option B (AIA plus 18% WDA)
Deductible from taxable profits	£1,300,000	£1,000,000	£2,600,000	£1,000,000 plus £180,000
Full tax savings	£247,000	£190,000	£494,000	£224,200
Tax savings per £1 of expenditure	24.7p	19.0p	24.7p	11p

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