

Budget Update Spring 2021

Super-deduction

One of the most significant announcements in the budget delivered on 3rd March 2021 was the introduction of **super-deduction** as a form of capital tax allowance for the purchase of new plant and machinery acquired for business use by UK limited companies.

Super-deduction is the latest addition to a range of allowances available

Writing Down Allowance (WDA)

The permanent scheme for claiming capital allowances is the standard **writing down allowance** which allows businesses to write off the cost of an asset for tax purposes over the period it is being used. Writing down allowances are available for all new and used equipment and can be claimed by any tax-paying business.

Annual Investment Allowance (AIA)

From 2006 an enhanced scheme for capital allowances has been available, known as the **Annual Investment Allowance**. It allows businesses to acquire a certain amount of capital equipment each year (£1,000,000 in 2021) and claim the full allowance in the tax year that the equipment was purchased.

Super-deduction

Available from 1st April 2021, **super-deduction** is the most attractive capital allowance scheme to date. It has been introduced to generate a significant increase in capital equipment investment by UK corporations ahead of a planned increase in corporation tax from 19% to 25% on 1st April 2023.

As with the Annual Investment Allowance, the super-deduction scheme brings forward all allowances that can be claimed to the year in which a qualifying asset is bought but also allows the claim to be based on a higher amount than the purchase price of the asset (see table below). Whilst the scheme is time limited, there is no financial cap on the amount of equipment that can be subject to super-deduction.

Who and what qualifies for each allowance?

The table below illustrates the three capital allowance schemes that are in place from 1st April to 31st December 2021.

	Writing Down Allowance (WDA)	Annual Investment Allowance (AIA)	Super-deduction
Capital allowance available	100% of asset price	100% of asset price	130% of asset price
Allowance in year of spend	18% of asset price	100% of asset price	130% of asset price
Qualification period (inclusive)	None	Jan 21 to Dec 21	April 21 to March 23 (Reduced super-deduction in Q1 2023)
Expenditure limit	None	£1,000,000 (No confirmation of allowance from 01/01/22)	None
Other tax allowances	Interest on loans and Hire Purchase Agreements	Interest on loans and Hire Purchase Agreements	Interest on loans and Hire Purchase Agreements
Who qualifies	All Businesses	All Businesses	Corporations Only
Exclusions		Cars	Cars, used equipment, integral features within a building, assets acquired for onward hire

The example below is for illustrative purposes only and shows the capital allowances and tax savings available through each of the schemes available from 1st April 2021.

• Asset cost of £100,000 • Corporation Tax of 19% • 4 Year Projection

	Capital Allowance		
	WDA	AIA	Super-deduction
YEAR 1	£18,000	£100,000	£130,000
YEAR 2	£14,760	£0	£0
YEAR 3	£12,103	£0	£0
YEAR 4	£9,925	£0	£0
TOTAL (After 4 Years)	£54,788	£100,000	£130,000
Unclaimed Allowance	£45,212	£0	£0
TOTAL AVAILABLE	£100,000	£100,000	£130,000
	Tax Saving		
	WDA	AIA	Super-deduction
YEAR 1	£3,420	£19,000	£24,700
YEAR 2	£2,804	£0	£0
YEAR 3	£2,300	£0	£0
YEAR 4	£1,886	£0	£0
TOTAL (After 4 Years)	£10,410	£19,000	£24,700
Unclaimed Allowance	£8,590	£0	£0
TOTAL AVAILABLE	£19,000	£19,000	£24,700

Note that interest paid on any Hire Purchase contract is generally deductible in line with the IFRS / UK GAAP accounting standards.

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