

BUSINESS TAX

Capital Allowances: Tax Relief on Equipment and Vehicles

How the tax system gives relief for buying equipment, vehicles and some buildings, and how timing and the right classification increase the benefit.

FOR: OWNERS BUYING EQUIPMENT OR VEHICLES • SOME EXPERIENCE

Why you cannot just deduct the cost

When a business buys a machine, a van or a computer system, the cost is not treated as an ordinary expense, because the asset lasts for years. Accounts spread the cost over its life through depreciation. But depreciation is not allowed for tax. Instead, the tax system gives its own relief, called **capital allowances**, which follows rules set by law, not by your accounting policy. They can be very valuable, and getting them wrong, in either direction, is costly.

What qualifies

- **Plant and machinery:** equipment, tools, computers, furniture, fixtures in some cases, and vehicles used for the business.
- **Integral features of buildings**, such as heating, lifts and electrical systems, in many cases.
- **Some buildings and structures**, through a separate allowance, subject to conditions.
- **Intangible items**, in a few cases, which follow different rules.

Land, and most of the cost of buying buildings, does not qualify. Items bought for personal use, or for resale, are not plant and machinery for this purpose.

The main reliefs

- **Annual investment allowance.** A cash limit of qualifying spend on most plant and machinery that can be deducted in full in the year of purchase. The limit is set by government, and applies across a group or connected businesses, so check the current figure.
- **Full expensing**, for companies, on certain new main-rate equipment, giving a deduction for the full cost in the year of purchase. It is for companies only, not sole traders or partnerships, and it has conditions and exclusions.
- **Writing down allowances**, for spending not covered, which give relief each year by a percentage of the remaining balance, in a pool.
- **First-year allowances**, for some low-emission vehicles and specific assets.
- **Cars.** Treatment depends on emissions and on whether the car is new.

Who this is for

- Owners planning to buy equipment
- Businesses with company cars or vans
- Anyone who has been told to buy before year-end

Key points

- Depreciation is not a tax cost. Allowances are.
- The limit and rules change often. Check before you buy.
- Timing relative to the year-end matters.
- Keep invoices and a fixed-asset register.
- Do not buy only for tax. Buy what the business needs.

Timing and planning

- **When you buy matters**, because allowances usually follow the accounting period in which the cost was incurred. An asset bought on the last day can bring relief for the whole year.
- **Choose between claiming in full and spreading**, which can affect the use of profits in a low-tax or high-tax year.
- **Sole traders and partnerships** have a different set of reliefs from companies, so the advice differs.
- **Vehicle choice** can change the amount and speed of relief and the benefits tax for the driver. Take advice before choosing.
- **Leasing or buying**, each has a different tax result.

Before you buy

- Is it for the business?
- Which allowance applies?
- When is our year-end?
- What will the cash effect be?
- How will it be financed?
- Have we asked our accountant?

Selling and scrapping assets

When you sell or scrap an asset on which you have claimed allowances, you may have to give some back, through a balancing charge. Conversely, if you sell for less than its remaining value, you may get a further allowance. Keep a record of what you bought, when, what you claimed, and what became of it.

Records

- Purchase invoices, showing the cost of each asset.
- A fixed-asset register with dates, costs and allowances claimed.
- Evidence of business use, such as mileage logs.
- Details of finance agreements, and when ownership transfers.

Common mistakes

- Treating everything as an expense, and missing allowances.
- Claiming for items that do not qualify.
- Forgetting to report disposals.
- Buying an asset only for the tax relief, and then not needing it.
- Misunderstanding the rules on cars and vans.

Related guides

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How King Street can help

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We advise on the allowances that apply before you commit to a purchase, help you choose the timing and the method of finance, keep your fixed-asset register, and make sure every allowance you are entitled to is claimed, and no more.

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