Crowe

Finance Focus Update
Corporation Tax Super Deduction

May 2021

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What is it?

- 130% fixed asset addition allowance for 2 years from 1 April 2021
- Effective rate of tax deduction, 130% x 19% = 24.7%
- Corporate tax will be 25% from April 2023, but will there still be £1m Annual Investment Allowance (AIA)? Due to reduce to £200,000 from January 2022.
- If increases a company's tax losses, can be relieved as usual including carry back against profits of 3 years under the new temporary extension.
- Any super deduction will always be net of grants received

Points to note

Available for expenditure on:

- New plant and machinery ordered after Budget day (3 March)
- Expenditure “incurred” between 1 April 2021 and 31 March 2023
- Unlimited spend

Not available on:

- Assets that are provided for leasing (watch propco / opco structures)
- Cars
- Second hand assets

Other new assets

- 50% allowance for integral features, long-life assets etc.

Qualifying assets?

No exhaustive list but typical assets:

Qualifying Assets	
Qualifies for 130% super-deduction	**Qualifies for 50% First-Year Allowance**
Tractors, lorries and vans (not cars)	Lifts, escalators and moving walkways
Computers, laptops and printers	Space and water heating systems
Ladders, drills and cranes	Air-conditioning and air-cooling systems
Toilets and kitchen facilities	Hot and cold water systems
Office chairs, desks and monitors	Electrical systems, including lighting
Furniture and machinery	External solar shading

When is incurred?

- Usually qualifying expenditure before activity commences is treated as incurred on the first day of activity
- BUT does not apply to super-deduction spend even if the first day commences in the period 1 April 2021 to 31 March 2023. Must be incurred during the period.
- Incurred normally is when unconditional obligation to pay arises, but not in this case if contract entered into pre 3 March 2021.
- PCP/Hire purchase?
  - Normally treated as incurred when start to benefit under the contract/brought into use

Points to note

Process

- Asset is put into a separate tax pool
- 130% of disposal proceeds taxed at 25%?

Attractive for:

- High value, high depreciating assets
- Assets with a longer life (<than 25 years), which you are likely to keep

Less attractive for:

- Assets where there is a continuing value, but which you will expect to upgrade after a short time
- Long life assets and integral features while AIA is still available

Example – Plant and Machinery

- Acquisition of an asset = £100k (assuming AIA permitted)

- £100k at 19% = £19,000

- Purchase price £100k, capital allowances £130k at 19% = £24,700

- No AIA, tax saving is £3,420 (£100k x 18% x 19%)

Example – Integral Feature / Long-Life Asset

- Acquisition of an asset = £100k (assuming AIA permitted)

- £100k at 19% = £19,000

- Purchase price £100k, capital allowances £50k (corporate tax at 19%) = £9,500

- No AIA, tax saving is £1,140 (£100k x 6% x 19%)

Use AIA in preference to super deduction for these assets – you can choose

Example – larger benefit – lots of spend!

Y Ltd spends £10m on assets that would qualify for the 50% FYA.

Scenario 1: Expenditure pre 1 April 2021	
	£
£1m AIA claimed	1,000,000
Balance of £9m written down at 6%	540,000
Total Deduction in the First Year	**1,540,000**
Tax Saving @ 19%	**292,600**

Scenario 2: Expenditure between 1 April 2021 and 31 March 2023	
	£
50% First-Year Allowance claimed	5,000,000
Total Deduction in the First Year	**5,000,000**
Tax Saving @ 19%	**950,000**

The remaining £5m will be added to the special rate pool from the following year and written down at 6%.

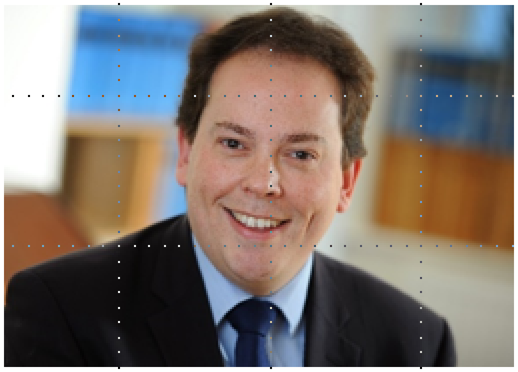
Disposal?

- Balancing charge on plant
  - If in period ending before 1 April 2023 – disposal proceeds x 1.3
  - Straddles 1 April 2023? Factor apportioned based on days.
  - After 1 April 2023 – normal disposal value
- Balancing part on 50% FYA
  - Similar calculation – proportion based on qualifying expenditure incurred on FYA, divided by 2 as a proportion of total spend
- Need to track claims and spend!

Disposal – for 50% qualifying asset

Disposal in chargeable period that ends before 1 April 2023		
	£	£
Disposal Value		2,000,000
Expenditure subject to 50% FYA	5,000,000	
Total Relevant Expenditure		
Relevant 50% FYA expenditure	2,500,000	
Expenditure in respect of which any other FYA was made	Nil	
Expenditure allocated to the pool	2,500,000	
	5,000,000	
Proportion of disposal value ((5,000,000 / 2) / 5,000,000)		50%
Balancing Charge (2,000,000 x 50%)		**1,000,000**
Tax Impact @ 19%		**190,000**

Contact



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Nick leads the Private Client Tax service in the Cheltenham office of national audit, tax and advisory firm Crowe U.K. LLP.

His tax advice helps clients not only to overcome their tax problems, but also to become and remain tax efficient. He advises on all aspects of the tax system but in particular income tax, capital gains tax and inheritance tax.

As well as acting for clients directly, Nick speaks at seminars to help people better understand changes in the tax rules and to help them spot planning opportunities.