



Changes to the capital allowances rules



Recent changes to the capital allowances rules will benefit UK businesses that incur significant expenditure on capital assets, especially those planning building fit-outs.

Capital allowances are the means by which tax relief is given for the cost of certain assets. They represent the tax equivalent of depreciation.

A number of changes to the capital allowances rules, designed to stimulate investment in capital assets, were introduced in the 2018 Autumn Budget. These changes, and their impact on UK businesses, are summarised as follows.

Increase in the Annual Investment Allowance

The Annual Investment Allowance (“AIA”) is an ‘upfront’ capital allowance that gives tax relief for 100% of the expenditure on qualifying assets in a given year, up to an annual limit.

Since 1 January 2016, the AIA has been fixed at £200,000 per year. From 1 January 2019, for a fixed period of two years, the AIA has been increased to £1 million per year.

For companies with accounting periods that span 1 January 2019, the AIA for the period will be determined by pro-rating the AIA amounts applicable before and after that date by the number of months in the accounting period that fall either side of it.

As a result of this increase, many businesses will obtain tax relief for their capital expenditure much earlier than would otherwise have been the case.

Businesses expecting to incur substantial capital expenditure over the next few years may wish to accelerate this in order to benefit from the enhanced tax relief whilst it is still available.

Introduction of the new Structures and Building Allowance

In recent years, capital allowances have generally only been available for expenditure on plant and machinery, which includes certain assets like air conditioning and heating systems (known as ‘integral features’) that are integral to, but don’t form part of, the building in which they are situated.

Assets such as doors, floors, windows and the immovable partitions in a building have been treated as part of the building itself and therefore as ineligible for capital allowances. Businesses fitting out their offices have often been disappointed to learn that much of their expenditure would not attract tax relief.

However, this has now changed with the introduction of the new Structures and Buildings Allowance (“SBA”), which allows tax relief to be claimed for the cost of new non-residential structures and buildings where the contract for the construction works was entered into on or after 29 October 2018.

The SBA is given at an annual 2% flat rate, thereby spreading tax relief for the cost of the building work over 50 years, and can be claimed as soon as the building is brought into use for the first time.



For this purpose, 'structures and buildings' includes those assets such as doors and windows that are installed as part of an office refurbishment, and includes overseas buildings as well as those located in the UK.

Expenditure on land, residential buildings, and other buildings that function as dwellings (e.g. student accommodation) will not qualify for the SBA.

As a result of the SBA, the overall cost of constructing a new building, or embarking on a substantial office fit-out, may now be significantly lower over time.

Changes to the 'special rate' of capital allowances

Most plant and machinery assets are eligible for capital allowances on a 'reducing balance' basis at 18% per year.

However, certain assets, such as the 'integral features' described above and high-emission cars, attract capital allowances at a reduced rate, known as the 'special rate'.

From 1 April 2019, the special rate of capital allowances will reduce from 8% to 6%. This means that, whilst the overall amount of tax relief given for these assets will not change, it will be given at a marginally slower rate than before. However, particularly given the increase in the AIA, this is unlikely to put off businesses contemplating new capital expenditure.

For more information please contact your usual Blick Rothenberg contact or one of the individuals listed in the footer of this document who will be able to assist you further.



Genevieve Moore
Partner, Corporate tax

+44 (0)20 7544 8815
genevieve.moore@blickrothenberg.com



Heather Self
Partner, Corporate tax

+44 (0)20 7544 8752
heather.self@blickrothenberg.com

Blick Rothenberg
16 Great Queen Street
Covent Garden
London WC2B 5AH

+44 (0)20 7486 0111
email@blickrothenberg.com

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