SUPER-DEDUCTION FACTSHEET

BUDGET 2021

- For expenditure incurred from **1 April 2021** until the end of **March 2023**, companies can claim **130% capital allowances** on qualifying plant and machinery investments.
- Under the super-deduction, for every pound a company invests, their taxes are cut by up to 25p. Please speak to your accountant to confirm how this tax relief will work for your business..

THE NEW CAPITAL ALLOWANCES OFFER

As a result of measures announced at this Budget, businesses will now benefit from significant capital allowance measures:

- The super-deduction – which offers 130% first-year relief on qualifying main rate new plant and machinery investments until 31 March 2023 for companies
- Annual Investment Allowance (AIA) providing 100% relief for new plant and machinery investments up to its highest ever £1 million threshold, until 31 December 2021

WHY IS THE GOVERNMENT INTRODUCING A SUPER-DEDUCTION?

- Making capital allowances more generous works to stimulate business investment.
- The super-deduction will give companies a strong incentive to make additional investments, and to bring planned investments forward.
- A tax information and impact note for the policy, and draft legislation, is published here.

WHAT ARE CAPITAL ALLOWANCES?

- Capital allowances let taxpayers write off the cost of certain capital assets against taxable income. They take the place of accounting depreciation, which is not normally tax- deductible. Businesses deduct capital allowances when computing their taxable profits.
- In translating its accounting profits into taxable profits, a business is usually required to 'add back' any depreciation, but can instead deduct capital allowances. For example, a corporation tax paying company with accounting profits of £1,000, depreciation expense of £200 and total capital allowance claims of £300 would make the following adjustment:
    - Add £200 (depreciation expense) to £1,000 (accounting profits) = £1,200
    - Deduct £300 (capital allowances) from £1,200 = £900 (taxable profits)
    - Apply the appropriate tax rate, e.g. corporation tax at 19%: £900 x 19% = £171 tax due
- The 130% super-deduction and a 50% first-year allowance are generous brand new capital allowances for investments in plant and machinery assets. Both will allow investing companies to lower their corporation tax bills.

WHAT IS PLANT AND MACHINERY?

Most tangible capital assets used in the course of a business are considered plant and machinery for the purposes of claiming capital allowances, and include CNC machine tools and accessories.

Example:

- A company incurring £100,000 on a CNC machine tool decides to claim the super-deduction
- Spending £100,000 on qualifying investments will mean the company can deduct £130,000 (130% of the initial investment) in computing its taxable profits
- Deducting £130,000 from taxable profits will save the company up to 19% of that – or £24,700 on its corporation tax bill.