

Capital allowances have only grown in importance amid all the recent turmoil in the tax world

CORPORATION TAX INCREASES

We have now had confirmation that the main corporation tax rate will go up from 19% to 25% from the start of April. One effect of this is that if a company can claim capital allowances of £100,000, the potential tax saving will increase from £19,000 to £25,000.

This change will not apply for trading companies with annual profits of up to £50,000. For trading companies with profits between £50,000 and £250,000, however, a marginal tax rate of 26.5% will apply, increasing still further the potential tax saving.

This can be illustrated as follows:

- First £50,000 of profits taxed at 19% = £9,500
- Next £200,000 of profits taxed at 26.5% = £53,000
- The total of £62,500 is the same as taxing the full profits of £250,000 at the new standard rate of 25%.

For example, if a company has profits of £200,000 and can claim allowances in the year of £100,000, those allowances will save it tax of £26,500 (£100,000 at 26.5%). It has been a long time since the potential value of allowances was so high.

ANNUAL INVESTMENT ALLOWANCES

We have also now had confirmation that the annual investment allowance (AIA) will stay at its current level of £1 million "permanently" (to the extent that anything in the tax world is permanent). The figure of £1 million has until now been only a temporary one, and was expected to reduce next year. Maintaining the AIA threshold at this higher level removes some very complex transitional rules. More importantly, it means that many businesses can claim full and immediate tax relief for all of their qualifying expenditure on most plant and machinery. Cars are excluded, but fixtures in buildings – even integral features – can benefit from this higher level of AIAs.

SUPER-DEDUCTION

The super-deduction for certain expenditure on plant and machinery was really just a mechanism to ensure that companies did not postpone their investments to after April 2023, so as to enjoy the higher tax relief referred to above.

The super-deduction will therefore be brought to an end from April as originally planned. See page 4 for more information.

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ARE CAPITAL ALLOWANCES LEGITIMATE TAX PLANNING?

Unless there are any more surprises, we now know what tax rates will look like for 2023-24. We also know that we will have a general election in the next two years or so, and it is possible that some pre-election rabbits will be pulled out of the hat for the 2024-25 tax year. But it seems very likely that taxes will remain high for many years to come.

For businesses struggling to survive and grow, legitimate tax planning is not just desirable but essential and sometimes even existential.

Against this background, it is worth remembering that capital allowances have been repeatedly given the official stamp of approval – by HMRC, in Parliament and elsewhere – so they are very clearly in the category of legitimate tax planning. The claiming of capital allowances is not in any sense an inappropriate tax avoidance measure.

There is one key proviso to this statement, however, which is that claims must be properly formulated, and this requires an in-depth understanding of the relevant tax law. In particular, a claim will not stand up to official scrutiny if the meaning of plant and machinery is not properly understood, taking full account of statutory provisions as well as of more than a century of case law. In the context of fixtures claims, the sometimes complex statutory provisions must be fully considered, with full adherence to time limits, to the so-called pooling requirement and to the correct use of elections.

As long as claims are properly formulated, capital allowances can offer the certainty of valuable tax savings.

DISRUPTION *and* UNCERTAINTY continue to seep deeply into the professional practice of accountancy

The profession-wide shortage of talent, the ability to find staff that fit a firm's culture, and the need to differentiate in a cluttered market, have created and are sustaining major challenges. That is compounded by the broader impacts on everyone's personal lives (financial pressure, war, pandemic, and the environment).

There is also some market stagnation, but despite that there remains pent-up demand and real opportunities for growth, but professional services in general is still faced with these following issues:

- The need for new skills
- Shortage of talent
- Market unpredictability
- Increased competition from new firms
- Increased competition from larger firms – including potential M & A disruption
- Changing how people buy the services

Pre-pandemic PwC and ACCA suggested ADVISORY would be the main area for growth for practice. This supports the much mooted 'added value' mantra as advisory adds more value in less time. 88% of clients believe that SERVICE matters most and 61% of clients use accountants as their main source of advice.

We know from our experience that accountancy firms committed to growing advisory services become more pro-active and creative in growing their markets and increasing fee levels. They also benefit even further as high-quality advisory can be seen as a brand builder. It also cascades through all service segments of a practice to create a wider uplift in fee income.

Our own analysis suggests that entrepreneurial practices are actively driving advisory rather than taking the low-risk route of their own status quo. They agree that their teams don't have all the answers and they need support in specialist areas, including capital allowances, with:

- 70% feeling it is better left to experts
- 92% preferring to recommend third party specialists to clients.
- 85% are open to the idea of their firms realising additional income via this route, but only half would definitely do so.

Fewer firms still only consider applying advisory services at a client review, which shows in that almost 80% of firms are reactive and responded only when an issue arises.

One thing remains paramount – real expertise is valued above all else.

What do those seeking to enhance their advisory offering look for then?

- Subject matter expertise and industry knowledge
- Relevant experience and past performance
- Talented staff and team skills
- Client support - flexible, responsive, timeliness, strong and open communication
- Legitimately delivers the service they offer
- Operates on a relationship basis, with committed support, for the long term

We know the accountancy market is changing, although some traditional attitudes persist.

We also understand the pressures of professional practice (we're one too) and the issues facing clients (because we're also a client too).

We feel that aligning ourselves to specific property sectors is okay but doesn't help the practices in need of support. Neither does it advance the advisory offering at all, which demands external consultants to truly understand the wider picture facing each practice and being able to dovetail with those demands.

This multi-faceted business environment that faces accountancy practices makes it essential for successful delivery that all practices concentrate on Prospects, Processes and People.

That is why accountants are increasingly viewing the talent pool of external experts in niche skills sectors as an integral part of the talent on their payrolls. They are the people that have:

- The right skills and talent
- Shared commitment – pulling together
- Expertise
- Track record of objective accountant and client advice

Always in partnership with you.

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Entitlement-first approach.

We will only proceed if your client is fully entitled to tax savings.



The client's tax position is paramount.

We consistently deliver the right fee-structure.



Always in partnership with you.

We will never go to your clients directly.

CC I have been working with the Six Forward team since 2015 and from the outset I was impressed with the responsiveness, reliability and the willingness to go the extra mile in all cases to protect my clients' tax positions... like others in my peer group I remain impressed by the transparent service, exceptional expertise and can-do attitude to help me to help my clients.



Gifted Properties

Six Forward have enjoyed working with a top regional accountancy practice and their client base for several years and continue to provide robust advice whilst working transparently with all parties involved. Taking a proactive approach when speaking with their clients, they stress the importance of engaging a *capital allowances specialist* to ensure the client's tax position is reaching its full potential.

To support the accountant with broader tax planning and inheritance tax (IHT) matters, we were asked to review gifted land and buildings where the property was to be demolished in place of a modern purpose-built property for a newly established furnished holiday letting (FHL) business.

WHY DID SIX FORWARD GET INVOLVED?

Our initial review focussed on the property being gifted to see whether a route to entitlement existed following the transfer of property to our client. It was quickly established that the property was of a residential nature and with no commercial aspect, entitlement to claim was restricted by CAA2001, section 35 - *Expenditure on plant or machinery for use in dwelling-house not qualifying expenditure in certain cases*. As part of broader tax affairs, the accountant now had one less thing to worry about.

On meeting with the accountant and client to discuss future plans, the client informed us that a complete demolition and rebuild was intended. This would happen before commencement of the FHL business. As such, no claim would be available for our client until the new build was completed and the FHL business commenced.

With a 6 month build plan at a cost of c £750,000, we remained close to the client during the build phase, updating our report in line with monthly valuations, specifically noting variations to the original tender.

HOW DID WE HELP?

For projects of this type, we typically see capital allowances amounting to 20% to 45% of total expenditure depending on the construction method and materials, and the specification of the internal fit out. Despite the high specification fit out on this occasion, the materials adopted were of significant expense, comprising steel, timber and locally sourced stone. As such, the allowances as a proportion of total spend were slightly lower than anticipated but still a very good result.

Had the property been developed for another commercial use, the balance not qualifying for plant and machinery allowances (PMAs) would likely have attracted relief via structures and buildings allowances (SBA) at a rate of 3% per annum over 33½ years. FHLs and property of a residential nature are specifically excluded from this relief.

Explanations were made on the correlation between Capital Allowances and Capital Gains Tax (CGT), overcoming the common misconception that claiming capital allowances now will lead to an increased CGT charge when sold at a profit later. Furthermore, it became clear that by making the claim early, despite the first-year loss position, annual investment allowances (AIAs) would accelerate the write down of the allowances to increase the loss position and enhance cashflow in later years in the absence of future tax liabilities until the tax losses were exhausted.

WHAT WAS THE OUTCOME?

As a result of our involvement, we identified a significant level of PMAs to provide tax savings in excess of £77,000 at an average income tax rate of 32.5%.

MYTH VS FACT

MYTH I CANNOT CLAIM BECAUSE MY COMMERCIAL PROPERTY WAS A FORMER RESIDENTIAL PROPERTY

It is well understood that some important capital allowances restrictions apply for residential property, or "dwelling-houses". If a landlord buys a property and lets it out on an assured shorthold tenancy, for example, he cannot normally claim plant and machinery allowances for the central heating system or the bathroom suite.

But the focus of the legislation is on what the present owner does with the property; the fact that a previous owner used it as residential property does not present any problem. Indeed, it may mean that the new owner can make the first claim, which can be very valuable. This might happen, for example, if a landlord buys a private house and starts to use it for holiday lettings that qualify for allowances.

TOTAL QUALIFYING EXPENDITURE **£758,364**

PLANT AND MACHINERY ALLOWANCES (PMAs)
Main rate pool **£110,762**
Special rate pool **£106,993**

TAX SAVINGS £77,770

Relevant legislation for this case:
Capital Allowances Act 2001 s.11, 15, 16, 17, 33A, 176



Goodbye to the super-deduction

For expenditure since April 2021, the so-called super-deduction has given more generous capital allowances for companies incurring qualifying expenditure on plant or machinery.

Relief has been given on 130% of the cost. So a company spending £10,000 has been able to claim relief on £13,000. With a tax rate of 19%, the potential tax saving has been £2,470, or just under 25% of the actual expenditure.

The standard rate of corporation tax goes up from 1 April 2023, and for expenditure in chargeable periods ending on or after that date, the enhanced relief is gradually withdrawn. There is a statutory formula for working out the reduced percentage, calculated on a day-by-day basis.

To give some examples:

- for expenditure in the chargeable period from 1 August 2022 to 31 July 2023, the 130% reduces to 120%
- for the year to 30 November 2023, this reduces to 110%

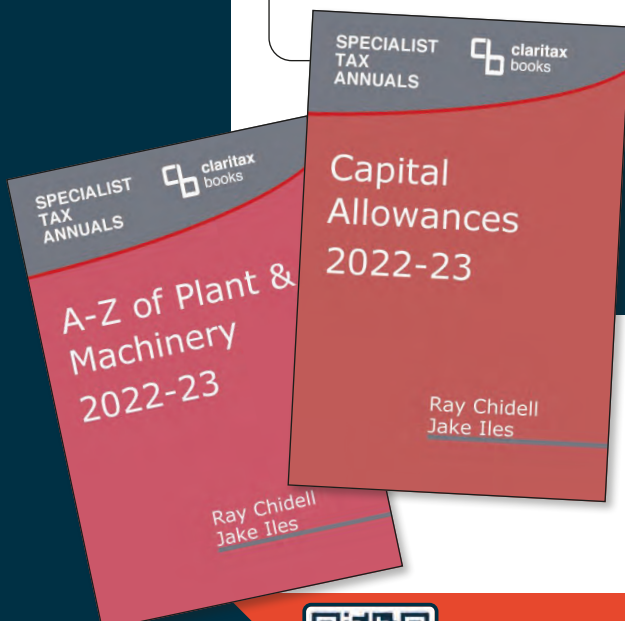
No enhanced deduction is given for chargeable periods beginning from 1 April 2023.

Special rules apply for disposals of assets on which the super-deduction has been claimed.

These can be quite complex but there are **two key points**:

First, the asset in question is de-pooled, so a disposal will always give rise to a balancing adjustment, and records need to be kept accordingly.

Secondly, the disposal value is increased for such assets. Again, there is a formula for this but, in summary, the disposal value is multiplied by 1.3 for disposals in chargeable periods ending before 1 April 2023, and by a lower figure for later disposals. However, there is no enhancement of the disposal proceeds for periods beginning on or after 1 April 2023.



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