Super-deduction and other first-year allowances

Contents

Clause 1: Super-deductions and other temporary first-year allowances

Summary

1. This clause introduces new temporary first-year allowances, including a 130% super-deduction for expenditure that would normally qualify for main rate writing down allowances and a 50% first-year allowance for special rate expenditure, with expenditure subject to certain exclusions. It has effect for expenditure incurred from 1 April 2021 up to and including 31 March 2023, and excludes contracts entered into prior to 3 March 2021.

Details of the clause

2. Subsection 1 provides new first-year allowances to be included in the list of provisions at section 39 Capital Allowances Act (CAA) 2001 and the amounts of the first-year allowances in the table at section 52(3).

3. Subsection 2 specifies the conditions which must be met in order for expenditure on plant or machinery to qualify for the super-deduction, which is a first-year allowance. The conditions are:

    a. The expenditure is incurred on or after 1 April 2021 but before 1 April 2023,

    b. it is incurred by a company within the charge to Corporation Tax,

    c. the plant or machinery is unused and not second-hand,

    d. the expenditure is not within any of the eight general exclusions in section 46(2) of CAA 2001, which include exclusions for expenditure on cars and on the provision of plant and machinery for leasing,

    e. it is not special rate expenditure (which is defined at section 104A CAA 2001), and

    f. the plant or machinery is not for use wholly or partly for the purposes of a ring fence trade, which means a trade in respect of which tax is chargeable under section 330(1) Corporation Tax Act 2010.

4. Subsection 3 specifies the conditions which must be met in order for expenditure on plant or machinery to qualify for the 50% first-year allowance. The conditions are:

    a. The expenditure is special rate expenditure (which is defined at section 104A CAA 2001),

    b. it is incurred on or after 1 April 2021 but before 1 April 2023,

    c. it is incurred by a company within the charge to Corporation Tax,

    d. the plant or machinery is unused and not second-hand, and

e. the expenditure is not within any of the eight general exclusions in section 46(2) of CAA 2001, which includes exclusions for expenditure on cars and on the provision of plant and machinery for leasing.

5. Subsection 4 specifies the conditions which must be met in order for expenditure on the provision of plant or machinery for use partly for the purposes of a ring fence trade to qualify for 100% first-year allowance. The conditions are:

    a. The expenditure is incurred on or after 1 April 2021 but before 1 April 2023,

    b. it is incurred by a company within the charge to Corporation Tax,

    c. the expenditure is not within any of the eight general exclusions in section 46(2) of CAA 2001, which includes exclusions for expenditure on cars and on the provision of plant and machinery for leasing, and

    d. it is not special rate expenditure (which is defined at section 104A CAA 2001).

6. Subsection 5 provides that the part of the first-year allowance made as a result of expenditure qualifying under subsection (4) is attributable to the ring fence trade on a just and reasonable basis.

7. Subsection 6 provides that the section has effect as if the provisions within this clause were contained within Chapter 4 Part 2 of CAA 2001. Among other things, this means that sections 5 and 50 CAA 2001 are relevant for determining when capital expenditure is incurred for the purpose of the new allowances, except for instances where the contract was entered into before 3 March 2021 (see subsection 7).

8. Subsection 7 provides that where a contract has been entered into for the provision of plant or machinery before 3 March 2021, expenditure incurred as a result of this contract is excluded from the 130% super-deduction and 50% first year allowance for special rate expenditure.

9. Subsection 8 amends section 67(1)(b) by substituting it with Conditions A and B in section 1129 CTA 2010 for the purpose of determining whether a person is entitled to first-year allowances in respect of the 130% super-deduction for main rate plant and machinery and 50% first-year allowance for special rate expenditure. This applies to hire purchase and similar contracts, where possession of plant or machinery transfers to the acquirer but not ownership.

10. Subsection 9 provides that section 130(1) CAA 2001, which provides for postponement of first-year allowances on the provision of a ship, does not apply to the super-deduction or 50% first-year allowance for special rate assets.

11. Subsection 10 sets out the definition of "ring fence trade".

Background note

12. As announced at Spring Budget 2021, to stimulate investment in the economy temporary capital allowances were introduced. These provide an increased incentive to invest in plant and machinery though generous rates of relief in the period the expenditure is incurred.

13. These reliefs are only available for companies within the charge to Corporation Tax. Unincorporated businesses can claim the full cost of expenditure through the Annual Investment Allowance, up to the relevant limit.

14. Capital allowances allow the cost of capital assets to be written down against a business's taxable profits. They are available in place of commercial depreciation provided for in commercial accounts. The main rate of writing down allowance for main rate plant and machinery is 18% a year on a reducing balance basis. The special rate of capital allowances, which applies to certain spending on plant and machinery including integral features, long-life assets, thermal insulation, is 6% a year on a reducing balance basis.

15. The super-deduction is a 130% first-year allowance for qualifying plant and machinery expenditure which would ordinarily be relieved at the main rate writing down allowance at 18%. The 50% special rate first-year allowance provides relief for qualifying expenditure that would ordinarily be relieved at the special rate writing down allowance.

16. There are exclusions to these reliefs, which include expenditure on cars, second-hand assets, connected party transactions (as per existing legislation for first-year allowances in Chapter 17, Part 2 CAA 2001) and expenditure on assets for leasing.

17. Expenditure on assets which are used partly for a ring fence trade qualifies for a temporary 100% allowance for investments that ordinarily qualify for 18% writing down allowances. Special rate expenditure for use partly in a ring fence trade qualifies for the 50% first-year allowance.

Clause 2: Further provision about super-deductions etc

Summary

1. This clause contains further provisions in connection with the super-deduction for main rate expenditure and 50% first-year allowance for special rate expenditure.

Details of the clause

2. Subsection 1 specifies that sections 3 to 6 contain further provisions in connection with the 130% super-deduction and 50% first-year allowance for special rate assets.
3. Subsection 2 provides that section 3 contains provisions that modify the percentage of the 130% first-year allowance for the super-deduction in certain circumstances. These are:
    a. Where super-deduction expenditure is incurred in a chargeable period that ends on or after 1 April 2023.
    b. Where an additional VAT liability accruing in a chargeable period that ends on or after 1 April 2023 is regarded as super-deduction expenditure as a result of section 236(2) of CAA 2001.
4. Subsection 3 provides that section 4 contains provisions about the disposal of plant or machinery in respect of which a super-deduction claim was made and section 5 contains a similar provision in relation to plant or machinery in respect of which a 50% first-year allowance for special rate assets was made.
5. Subsection 4 provides that section 6 contains provision about counteracting tax advantages in connection the super-deduction or 50% first-year allowance for special rate assets. This is in addition to existing provisions in Chapter 17 of Part 2 of CAA 2001, which contains provisions for first-year allowances that apply to the super-deduction and 50% first-year allowance for special rate assets.
6. Subsection 5 provides that sections 3, 4, and 5 have effect as if they were contained in Chapter 5 of Part 2 of CAA 2001.
7. Subsection 6 sets out explanations, for the purposes of this section and sections 3 to 6, of the terms “super-deduction expenditure”, “super-deduction”, “SR allowance expenditure”, “SR allowance” and “additional VAT liability”.

Background note

8. As announced at Spring Budget 2021, to stimulate investment in the economy the temporary super-deduction, a 130% first-year allowance and a 50% first-year allowance for special rate assets, were introduced. These provide an increased incentive to invest in qualifying plant and machinery through generous rates of relief in the period the expenditure is incurred.

9. This clause sets out the further provisions which apply to the super-deduction and the 50% first-year allowance for special rate assets.

Clause 3: Reduced super-deduction

Summary

1. This clause applies to the super-deduction and amends the rate of the 130% first-year allowance for qualifying expenditure when certain circumstances occur.

Details of the clause

2. Subsection 1 provides that subsection (2) applies when a company within the charge to Corporation Tax incurs qualifying expenditure for the super-deduction in a chargeable period that ends on or after 1 April 2023.

3. Subsection 2 provides that (in the circumstances detailed in subsection (1)), the 130% rate of relief at 1(1)(b) is substituted by the relevant percentage, which is defined at subsection (5).

4. Subsection 3 provides that subsection 4 applies where a company within the charge to Corporation Tax incurs, in a chargeable period that ends on or after 1 April 2023, an additional VAT liability which qualifies for first-year allowances under section 236 CAA 2001 and is in respect of plant or machinery which qualified under section 1(2).

5. Subsection 4 provides that (in the circumstances detailed in subsection (3)), the 130% rate of relief at section 1(1)(b) is substituted by either:

    a. the relevant percentage, which is defined at subsection (5), if the company within the charge to Corporation Tax incurs the additional VAT liability before 1 April 2023, or

    b. 100%, if the additional VAT liability is incurred on or after 1 April 2023.

6. Subsection 5 provides the calculation of the relevant percentage for the purposes of subsections (2) and (4)(a). For example, if a company has a 12-month accounting period to 31 December 2023, then, due to subsection (2), the rate of relief should be amended and calculated by:

    a. Taking the total number of days in the period prior to 1 April 2023, which is 90 days, and dividing by the total number of days in the entire period, which is 365 days.

    b. then multiplying 90/365 by 30%, which equals 7.4%, and

    c. adding 100% to the result, which gives a relief of 107.4% for qualifying expenditure incurred in the period up to and including 31 March 2023.

Background note

7. As announced at Spring Budget 2021, to stimulate investment in the economy, the temporary super-deduction was introduced; providing an increased incentive to invest in qualifying plant and machinery through generous rates of relief in the period the expenditure is incurred.

8. To qualify for the super-deduction, expenditure must be incurred from 1 April 2021 and up to and including 31 March 2023. Although expenditure has to be incurred in this period to qualify, relief may be claimed in chargeable periods which end on or after 1 April 2023.

9. The rate of relief is amended under the following circumstances:

   a. Where a company within the charge to Corporation Tax incurs qualifying expenditure in a chargeable period that ends on or after 1 April 2023

   b. Where a company within the charge to Corporation Tax incurs an additional VAT liability, as defined by section 547(1) CAA 2001, in a chargeable period that ends on or after 1 April 2023, and the additional liability qualifies for the 130% first-year allowance by virtue of section 236 CAA 2001.

Clause 4: Disposal of assets where super-deduction made

Summary

1. This clause applies when there is a disposal of plant or machinery and a previous super-deduction claim was made in respect of that plant and machinery. It has effect for all disposals of plant or machinery subject to previous super-deduction claims.

Details of the clause

2. Subsection 1 specifies that if a claim to the super-deduction was made in a previous chargeable period on some or all qualifying plant or machinery expenditure then this section applies.

3. Subsection 2 provides that where this section applies, the person who disposes of plant or machinery which was subject to a previous claim to the super-deduction, is liable to a balancing charge in the chargeable period when that plant or machinery asset is disposed.

4. Subsection 3 provides that the balancing charge is the relevant proportion of the disposal value (the disposal value is determined by ss61-63, CAA01) subject to subsection (6). Subsection 6 applies if the disposal event occurs in a chargeable period that commences before 1 April 2023.

5. Subsection 4 provides that the relevant proportion of the disposal value is determined by dividing the amount of relevant super-deduction expenditure incurred in respect of the plant and machinery by the total relevant expenditure in relation to it.

6. Subsection 5 provides that super-deduction expenditure is "relevant super-deduction expenditure" if a super-deduction was made in respect of it; and that "total relevant expenditure" is the total of (a) the "relevant super-deduction expenditure"; (b) any other first-year allowance made in respect of the plant and machinery; and (c) any expenditure on the asset which has been allocated to a pool.

7. Subsection 6 specifies that if the disposal occurs in in a chargeable period that commences before 1 April 2023, the amount of the balancing charge is the amount determined by subsection (3) (the relevant proportion of the disposal value) multiplied by the relevant factor.

8. Subsection 7 provides that the relevant factor is 1.3 if the disposal occurs in a chargeable period that ends before 1 April 2023.

9. Subsection 8 provides that if the disposal occurs in a chargeable period that commences before 1 April 2023 and ends on or after that day, the relevant factor of 1.3 is amended based on an apportionment of the number of days in the period

before 1 April 2023 over the total number of days in that period.

10. Subsection 9 provides that the balance of super-deduction expenditure for which a super-deduction was made is to be treated as 'nil' for the purpose of section 58(5)(b) and (6), CAA01, which concerns the allocation of first-year qualifying expenditure to a pool. This subsection is for the avoidance of doubt, to make it clear that a company is not entitled to allocate a negative balance of expenditure to the pool because the allowance was greater than the expenditure.

11. Subsection 10 provides that where a balancing charge applies, the total disposal receipt which is required to be taken to the main pool is reduced by the amount of the relevant proportion of the disposal value of the plant or machinery. The effect of this subsection is that if the entire disposal receipt is treated as a balancing charge, then there is effectively a nil disposal receipt to take to the pool. However, if only a portion of the disposal receipt gives rise to a balancing charge, then the remainder of the disposal receipt has to be taken to the pool.

12. Subsection 11 provides that section 135(1), CAA01, which allows ship owners to defer balancing charges, does not apply in relation to balancing charges arising under this section.

13. Subsection 12 states this section applies for disposals occurring on or after 1 April 2021.

Background note

14. As announced at Spring Budget 2021, to stimulate investment in the economy the temporary super-deduction, a first-year allowance, was introduced; providing an increased incentive to invest in qualifying plant and machinery through generous rates of relief in the period the expenditure is incurred.

15. To qualify for the super-deduction, expenditure must be incurred from 1 April 2021 and up to and including 31 March 2023 and must not fall within any of the exemptions.

16. If a company within the charge to Corporation Tax makes a claim to this allowance, and then later disposes of the plant or machinery, then the rules within this section apply. All or some of the disposal value is treated as a balancing charge, a taxable profit, in the chargeable period the disposal event occurs.

17. The amount of the disposal value subject to the balancing charge is reduced if a company claims a super-deduction for only part of its qualifying expenditure on the plant or machinery and pools other expenditure incurred on the asset or claims another first-year allowance in respect of it. This might happen, for example, if a company incurs expenditure in stages on plant or machinery that is constructed over a period of time and part of the expenditure is incurred after 1 April 2023.

18. If the relevant amount is less than the total disposal value for the item, then the remaining amount of the disposal value is taken to the main rate pool.

Clause 5: Disposal of assets where SR allowance made

Summary

1. This clause applies when there are disposals of special rate plant or machinery where a previous 50% first-year allowance claim was made. It has effect for all disposals of plant or machinery subject to previous claims.

Details of the clause

2. Subsection 1 specifies that if the 50% first-year allowance was made in a previous chargeable period on some or all qualifying plant or machinery expenditure, then this section applies to the plant or machinery.

3. Subsection 2 provides that where this section applies, the person who disposes of plant or machinery which was subject to a previous 50% first year allowance claim is liable to a balancing charge in the chargeable period when that plant or machinery is disposed.

4. Subsection 3 provides that the balancing charge is the relevant proportion of the disposal value of the plant or machinery. The disposal value is determined in accordance with sections 61-63, CAA01.

5. Subsection 4 provides that the relevant proportion of the disposal value, for an item of plant or machinery, is determined by dividing the amount of relevant special rate allowance expenditure which was subject to a 50% first-year allowance by 2, and then dividing that amount by the amount of total relevant expenditure in relation to it. For example, if a company has claimed a 50% SR allowance for the plant or machinery and has pooled the 50% balance of the qualifying expenditure after the SR allowance has been made (without pooling or claiming any other qualifying expenditure on the asset), the balancing charge would be 50% of the disposal value.

6. Subsection 5 provides that “SR allowance” expenditure is “relevant” if a 50% first-year allowance was made in respect of it. “Total relevant expenditure” in relation to plant or machinery is the total of (a) the relevant 50% first-year allowance expenditure, (b) any expenditure in respect of which any other first-year allowance was made and (c) any expenditure in relation to the asset that is not relevant SR allowance expenditure and was allocated to a pool for any chargeable period.

7. Subsection 6 provides that the total disposal receipt which is required to be taken to the special rate pool is reduced by the amount of the balancing charge.

8. Subsection 7 provides that section 135(1) of CAA 2001, which allows ship owners to defer balancing charges, does not apply to balancing charges that arise as a result of this section.

9. Subsection 8 states this section applies for disposals occurring on or after 1 April 2021.

Background note

10. As announced at Spring Budget 2021, to stimulate investment in the economy the temporary 50% first-year allowance for special rate assets, was introduced; providing an increased incentive to invest in qualifying plant and machinery through generous rates of relief in the period the expenditure is incurred.

11. To qualify for the special rate allowance, expenditure must be incurred from 1 April 2021 and up to and including 31 March 2023 and must not fall within any of the exemptions.

12. If a company within the charge to Corporation Tax makes a claim to this allowance, and then later disposes of the plant or machinery, then the rules within this section apply. The rules treat part of the disposal proceeds as a balancing charge, a taxable profit, in the chargeable period the disposal event occurs.

13. The amount of the disposal receipt subject to the balancing charge is reduced in proportion to the total qualifying expenditure that has been claimed or pooled in relation to the relevant plant or machinery.

14. The amount remaining of the total disposal receipt is pooled due to section 58(6) CAA 2001.

Clause 6: Counteraction where arrangements are contrived etc

Summary

1. This clause applies if a company enters into relevant arrangements which give rise to a relevant tax advantage, in connection with any super-deduction or the 50% first-year allowance for special rate expenditure. It has effect for any relevant arrangements entered into on or after 3 March 2021.

Details of the clause

2. Subsection 1 provides that a just and reasonable adjustment applies if a relevant tax advantage arises from relevant arrangements.

3. Subsection 2 provides that a relevant tax advantage is an advantage connected with a super-deduction for main rate expenditure or 50% allowance for special rate expenditure. For example, this can apply to the claim to the first-year allowance or the avoidance or reduction of a balancing charge on disposal of plant or machinery on which one of these allowances was claimed.

4. Subsection 3 provides that arrangements are relevant if the purpose or one of the main purposes of the arrangements is to obtain a relevant tax advantage, and taking account of all the relevant circumstances it is reasonable to conclude that either:

    a. the arrangements are or include steps that are contrived or abnormal or lack a genuine commercial purpose, or

    b. the arrangements can be regarded as circumventing the intended limits of relief under CAA 2001 or otherwise exploiting shortcomings in that Act.

5. Subsection 4 provides that if this section applies, then an adjustment can be made by way of an assessment, modification of an assessment, or amendment or disallowance of a claim or otherwise.

6. Subsection 5 defines arrangements and tax advantage for the purpose of this section.

7. Subsection 6 provides that the section has effect for any relevant arrangement entered into on or after 3 March 2021.

Background note

8. As announced at Spring Budget 2021, to stimulate investment in the economy the temporary super-deduction, a first-year allowance and a 50% first-year allowance for special rate assets, was introduced. These provide an increased incentive to invest in qualifying plant and machinery through generous rates of relief in the period the expenditure is incurred. The reliefs are available to companies within the charge to Corporation Tax.

9. This section is an anti-avoidance rule which applies to any claims to these allowances, or any reduced balancing charges on the disposal of plant or machinery where a previous claim was made, providing there is a relevant tax advantage which arises from relevant arrangements.

10. There are existing anti-avoidance provisions within Chapter 17, CAA 2001 which also apply to these reliefs.