HM Revenue & Customs

New temporary tax reliefs on qualifying capital asset investments from 1 April 2021

Who is likely to be affected

Companies within the charge to Corporation Tax who invest in plant and machinery on or after 1 April 2021.

General description of the measure

This measure will temporarily introduce increased reliefs for expenditure on plant and machinery. For qualifying expenditures incurred from 1 April 2021 up to and including 31 March 2023, companies can claim in the period of investment:

- a super-deduction providing allowances of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances
- a first-year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances

The measure also temporarily amends the rules covering expenditure incurred on plant and machinery used partly in a ring fence trade in the oil and gas sector.

Policy objective

This measure is designed to stimulate business investment. It does so by increasing the incentive to invest in plant and machinery by offering higher rates of relief than were previously available.

Background to the measure

Capital allowances allow businesses to write off the costs of tangible capital assets, such as plant or machinery, against their taxable income. They take the place of commercial depreciation, which is not an allowable tax deduction.

First-year allowances allow enhanced rates of relief for certain plant and machinery investments, providing claims are made in the period the expenditure is incurred. The super-deduction is an enhanced first-year allowance providing an allowance exceeding the cost of the asset.

Detailed proposal

Operative date

The measure will have effect in relation to qualifying expenditure from 1 April 2021 and will exclude expenditures incurred on contracts entered into prior to Budget day on 3 March 2021.

Current law

Part 2 Capital Allowances Act 2001 (CAA 2001) sets out the current law for plant and machinery allowances.

First-year qualifying expenditures are currently contained within Chapter 4, Part 2, CAA 2001 and the allowances for these expenditures set out at section 52, Chapter 5, Part 2 CAA 2001.

General exclusions to first-year allowances are within s46.

Chapter 5 contains provisions on pooling, disposal events and disposal values.

Chapter 17 contains anti-avoidance provisions which apply to first-year allowances.

Proposed revisions

Legislation will be introduced in Finance Bill 2021 to amend Part 2 CAA 2001 to bring in the super-deduction, an enhanced temporary 130% first-year allowance for main rate assets; and a 50% first-year allowance for special rate assets.

Certain expenditures will be excluded. The general exclusions at s46(2) will apply. General exclusion 6 exempts from first-year allowances expenditure on the provision of plant or machinery for leasing (whether in the course of a trade or otherwise). An amendment will be made so that general exclusion 6 does not prevent expenditure being qualifying expenditure for the super-deduction and 50% first-year allowance if the plant or machinery is provided for leasing under an excluded lease of background plant and machinery for a building.

In addition, there will be exclusions for used and second-hand assets and expenditures on contracts entered into prior to 3 March 2021 even if expenditures are incurred after 1 April 2021. Assets used wholly within a ring fence trade will be excluded from the super-deduction, as they already have a 100% allowance, with assets used partly in a ring fence trade temporarily qualifying for a 100% first-year allowance. Plant and machinery expenditure which is incurred under a Hire Purchase or similar contract must meet additional conditions to qualify for the super-deduction and special rate relief.

The rate of the super-deduction will require apportioning if an accounting period straddles 1 April 2023. The rate should be apportioned based on days falling prior to 1 April 2023 over the total days in the accounting period.

Amendments will be made to Chapter 5 to bring in new disposal rules that will apply to assets that have been claimed to these allowances. Disposal receipts should be treated as balancing charges (taxable profits), instead of being taken to pools. The calculation includes rules which treat only part of the disposal receipt as a balancing charge, if part of the original expenditure is claimed via these temporary allowances, or part is claimed via other capital allowances.

Further, for assets that have been claimed under the super-deduction, the disposal value for capital allowance purposes should take the disposal receipt and apply a factor of 1.3 for periods commencing prior to 1 April 2023. Where disposals occur in accounting periods straddling 1 April 2023, the factor is lower than 1.3. This rule does not apply to the 50% first-year allowance for special rate expenditures.

An anti-avoidance provision applies to counteract arrangements which are contrived, abnormal, or lacking a genuine commercial purpose and existing rules at Chapter 17 apply, including the exclusion of connected party transactions from first-year allowances.

Summary of impacts

Exchequer impact (£m)

2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024	2024 to 2025	2025 to 2026
-1,735	-12,255	-12,695	-2,395	+2,090	+2,780

The impacts of this measure were set out in Table 2.1 of Budget 2021. More details can be found in the policy costings document published alongside Budget 2021. Revisions to the impact of the measure in light of changes made here will be subject to scrutiny by the Office for Budget Responsibility and will be set out at the next fiscal event.

Economic impact

This measure will have a strong positive impact on business investment for the period that it will apply. It will do so by reducing the tax-adjusted cost of capital for millions of companies (large and small) investing in qualifying plant and machinery assets.

Impact on individuals, households and families

There is no impact on individuals as this measure only affects businesses. This measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that there will be impacts for those in groups sharing protected characteristics.

Impact on business including civil society organisations

This measure is expected to have a significant positive impact on an estimated 2.8million companies that incur qualifying expenditure on plant and machinery. Overall, businesses will see significant benefit from this measure through increased tax relief for their qualifying expenditure on plant and machinery, which will drive increased investment.

However, there will be additional administrative costs for businesses. One-off costs will include familiarisation with the change and could include updating software to account for the temporary reliefs. The one-off cost for all businesses is estimated to be £63 million.

Continuing costs could include considering the correct calculation when disposing of plant and machinery assets. The total continuing administrative burden for business disposing of assets is estimated to be £16 million per year. The costs could increase year on year as more businesses dispose of these assets but over the longer term these costs will reduce to zero.

This measure could negatively impact customer experience as the change requires additional tax administration tasks to be completed when assets are disposed. To support, clear guidance will be provided in the Capital Allowances Manual.

This measure is not expected to impact on civil society organisations.

Estimates of compliance costs are shown in the table below:

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	63
Savings	-

Estimated continuing impact on administrative burden (£m)

Continuing average annual impact	(£m)
Costs	16
Savings	-
Net impact on annual administrative burden	+16

Operational impact (£m) (HMRC or other)

This measure will have an operational impact on HMRC, including staff resources and changes to IT systems and guidance. As approximately 2.8 million companies could claim this relief, the costs are estimated to be £10,200,000

Other impacts

Other impacts have been considered and none has been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and through regular engagement with businesses and their representative bodies.

Further advice

If you have any questions about this change, contact HMRC on
email: contact.capitalallowances@hmrc.gov.uk.

Declaration

The Right Honourable Jesse Norman, Financial Secretary to the Treasury has read this tax information and impact note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.