HM Revenue & Customs

Capital Allowances for Plant and Machinery Toolkit

2018-19 Self Assessment and Company Tax Returns

Published October 2019

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Introduction

Tax agents and advisers play an important role in helping their clients to get their tax returns correct. This toolkit is aimed at helping and supporting tax agents and advisers by providing guidance on the errors we find commonly occur in relation to capital allowances for plant and machinery. It may also be helpful to anyone who is completing a Company Tax Return or Income Tax Self Assessment tax return.

This version of the toolkit was published in October 2019. The risks in this toolkit have been reviewed and updated where necessary for 2018-19 and are applicable for financial years commencing 1 April 2018 for Company Tax Returns and 6 April 2019 for Income Tax Self Assessment tax returns.

For further information on using this toolkit and reasonable care under our penalty system see **Tax agents toolkits**.

For guidance on other matters not dealt with in this toolkit you should refer to our **Capital Allowances Manual (CA)**.

Areas of risk within capital allowances for plant and machinery

Depreciation of fixed assets charged in the accounts is not allowed as a deduction in computing taxable profits. Capital allowances may be given instead. Plant and machinery allowances give relief at prescribed rates for fixed assets that are plant and machinery.

In order to qualify for plant and machinery allowances you must:

- be carrying on a qualifying activity
- incur qualifying expenditure.

If further guidance is required on this aspect or on general capital allowance matters please refer to the **Capital Allowances Manual**.

This toolkit does not reflect any differences which may arise from the application of:

- the cash basis which is available from 2013-14 for the simplest small businesses. For further information see **BIM70000+**
- The Small Companies (Micro-Entities' Accounts) Regulation 2013.

If the cash basis has been adopted then capital allowances are not available except for cars.

The main areas of risk for capital allowances for plant and machinery broadly fall into the following categories:

Record keeping

Good record keeping is essential. Lack of such records can mean that information provided is not accurate resulting in the submission of incorrect tax returns. An asset may be owned by the business for a number of years and without good records it may be difficult to determine the correct capital allowances treatment. For example, an asset may have had different proportions of non-business use during the period of ownership that will affect the balancing allowance or balancing charge on disposal. Detailed records of all acquisitions and disposals including their value are important. These records make it easier to gather the relevant information when needed and consider the current position to help complete the return correctly and completely.

Acquisitions and disposals

When assets are acquired careful consideration should be given to whether the asset qualifies for capital allowances and the amount that qualifies. Whether expenditure on an asset qualifies for capital allowances depends on whether certain conditions are met and in addition there are issues to consider around the date on which the expenditure is incurred and how the asset is used in the business.

For disposals, errors can arise when assets that have been disposed of are not recognised in the capital allowances computation. For example, when an asset is given in part exchange against another asset this is a disposal for capital allowances purposes.

Non-business use and cars

A significant area of error in some returns is identifying non-business use of assets, mainly, although not exclusively, with cars. It is important to consider the assets used in the business (both companies and other businesses) and review both the trade and the assets to take into account any non-business use when calculating the capital allowances.

Using links within this document

Blue underlined text are links within this document.

Green bold text are hyperlinks to external documents on the internet (access to the internet is necessary to view these).

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Dealing with HMRC if you have additional needs

Giving HMRC feedback on toolkits

HMRC would like to hear about your experience of using the toolkits to help develop and prioritise future changes and improvements. HMRC is also interested in your views of any recent interactions you may have had with the department.

Send HMRC your feedback

Client Name:	Period Ended:

Checklist for capital allowances for plant and machinery

		Yes	No	N/A	N/K
	Acquisitions				
1	If there have been any assets acquired during the period do they qualify for capital allowances?	☐	☐	☐	☐
2	Is the amount identified as qualifying expenditure incurred accurate?	☐	☐	☐	☐
3	Has the qualifying expenditure been adjusted for any VAT reclaimed?	☐	☐	☐	☐
4	Have all payments been made within four months?	☐	☐	☐	☐
5	Have any qualifying energy-saving plant and machinery assets been acquired during the period?	☐	☐	☐	☐
6	Where assets have been purchased on hire purchase have they been brought into use?	☐	☐	☐	☐

Disposals

7 If any assets have been disposed of during the period has the disposal value been included in the capital allowances computation?

	☐	☐	☐	☐

8 Have the correct disposal values been accounted for?

	☐	☐	☐	☐

9 Has the value of any assets disposed of in part exchange for a new asset been accounted for appropriately?

	☐	☐	☐	☐

10 Has the correct disposal value for assets purchased on hire purchase been accounted for?

	☐	☐	☐	☐

Non-business adjustments

11 Have all business assets used for non-business purposes been identified?

	☐	☐	☐	☐

12 Have the allowances for any asset used partly for non-business purposes been reduced?

	☐	☐	☐	☐

13 Is the reduction in the writing-down allowances claimed for an asset with non-business use accurate?

	☐	☐	☐	☐

Non-business adjustments continued

14 If a non-business use adjustment was made in an earlier period has the reduction been reviewed to ensure that it is still just and reasonable?

15 Has the balancing adjustment (allowance or charge) of any asset which has been used partly for non-business purposes and has been disposed of been adjusted appropriately?

16 Have appropriate adjustments been made for any business vehicles used for journeys between home and work?

Cars

17 Have all vehicles which are cars for capital allowances purposes been identified?

18 Have all cars been excluded from the Annual Investment Allowance qualifying expenditure?

19 Have the correct capital allowances rules for cars been applied?

20 Has a mileage allowance been paid to anyone for use of a vehicle on which writing-down allowances have been claimed?

Cars continued

21 Have any sale proceeds for cars upon which first year allowances have previously been claimed been correctly dealt with?

General

22 Has depreciation, impairment, revaluation movements and any profit or loss on sale been added back to the accounts profit in the tax computation?

23 Are all assets on which expenditure has been incurred still owned by the business at the time of their introduction into the pool for capital allowances purposes?

24 If the chargeable period is longer or shorter than 12 months have the allowances claimed been increased or reduced appropriately?

25 Has Annual Investment Allowance only been claimed where there is a qualifying person?

26 Is the Annual Investment Allowance claimed appropriate to the qualifying expenditure incurred in the chargeable period?

General continued

27 Have there been any assets disposed of to, or acquired from, connected parties (this includes transactions made as part of a business incorporation)?

☐ ☐ ☐ ☐

28 Has a property together with fixtures that are plant and machinery been acquired or disposed of?

☐ ☐ ☐ ☐

Explanation and mitigation of risks

Acquisitions

1. If there have been any assets acquired during the period do they qualify for capital allowances?

Risk
There are general conditions that must be satisfied for expenditure to be qualifying expenditure for capital allowances. The expenditure must be capital expenditure on the provision of plant and machinery wholly or partly for the purposes of the qualifying activity that the person incurring the expenditure carries on and the person must own the plant and machinery as a result of incurring the expenditure.

Mitigation
Review the capital expenditure and identify any asset acquisitions. Ensure the expenditure is qualifying expenditure for the purposes of a qualifying activity that the person incurring the expenditure carries on and that the asset is plant or machinery.

Further guidance may be required to establish the qualifying expenditure for capital allowances purposes.

For further guidance see **CA21000+**.

Explanation
The capital allowances legislation does not define plant and machinery. Machinery includes machines and the working parts of machines. A machine usually has moving parts. Assets like motor vehicles and lathes are machines as are computers and similar electronic devices. For further guidance see **CA21010**.

However, you may also find machinery in places where you might not expect.

For further guidance on miscellaneous items that are plant and machinery see **CA21200**.

The meaning of the term 'plant' can be more difficult. When you are making a capital allowance claim you should first check whether the asset is covered by the legislation that says that some assets are plant.

For further guidance see **CA21010**.

If it is not, check whether it is excluded by the legislation. For example; the legislation says that most buildings, parts of buildings and structures are not plant or machinery. However expenditure on certain integral features of buildings or structures qualify for allowances in the special rate pool.

For further guidance on integral features see **CA22300+**.

For further guidance on assets that are excluded by the legislation from being plant see **CA22010** and **CA22020**.

For further guidance on assets unaffected by the legislation see **CA22030**.

If the legislation does not include or exclude an item from being plant you should apply the tax case tests set out at **CA21140**.

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2. Is the amount identified as qualifying expenditure incurred accurate?

Risk
The capital allowances computation should accurately reflect the amount of any expenditure incurred in the chargeable period. If adequate records are not maintained the capital allowances computation may not be accurate.

Mitigation
Check the records retained by the business to ensure that the amount of the expenditure for capital allowances purposes is accurate.

In most cases, the amount of the expenditure is usually the purchase price of the asset. However, if the asset was initially acquired for other purposes, or if it was received as a gift, then the market value of the asset will be the qualifying expenditure.

For further guidance see **CA23000+**.

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3. Has the qualifying expenditure been adjusted for any VAT reclaimed?

Risk
The purchase price of an asset usually includes VAT. Where VAT paid on the acquisition of an asset is allowable as input tax for VAT purposes capital allowances should only be claimed on the cost of the asset net of the VAT input tax reclaimed. In all other cases the VAT paid should be included in the cost of the capital expenditure for capital allowances purposes. If reclaimed VAT is not correctly identified the amount of qualifying expenditure will not be accurate.

Mitigation
Check whether any VAT paid on the acquisition of an asset has been reclaimed. If VAT has been reclaimed ensure that the qualifying expenditure accounted for is net of the amount reclaimed.

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4. Have all payments been made within four months?

Risk
The date on which capital expenditure is incurred may depend on the date that payment is made. If this is overlooked it may result in the expenditure being treated in the wrong period for capital allowances purposes.

Mitigation
Review the date of all payments and ensure that capital expenditure is only accounted for when it is treated as being incurred.

Explanation
The normal rule is that expenditure is incurred on the date on which the obligation to pay becomes unconditional. However, there is an exception to this general rule. If there is a gap of more than four months between the date on which the obligation to pay becomes unconditional and the date on which payment is required to be made, then the expenditure is not treated as incurred until the date on which payment is required to be made.

For further guidance see **CA11800**.

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5. Have any qualifying energy-saving plant and machinery assets been acquired during the period?

Risk
The Enhanced Capital Allowance (ECA) energy scheme provides for 100 per cent first-year allowances (FYA) for expenditure incurred on acquiring new energy-saving plant and machinery. It is only available on qualifying technologies or products specified on the **Energy Technology List** website. If the proper checks are not carried out to ensure that the particular asset acquired qualifies then ECA may be incorrectly claimed.

Mitigation
If an asset or part of an asset has been acquired that could be considered to be energy-saving plant and machinery then consult the **Energy Technology List** website to check if the asset is listed. If a product is not listed it may still qualify if it is within a qualifying technology category and meets the energy saving eligibility criteria for that category. The supplier will need to either provide written confirmation that the particular product complies with the criteria or, in certain circumstances, will need to provide a certificate of quality assurance and energy efficiency.

Explanation
ECA for expenditure incurred on qualifying energy-saving plant and machinery have been available since April 2001 and will cease with effect from 1 April 2020 for Corporation Tax and from 6 April 2020 for Income Tax. To qualify for ECA the asset will need to belong to a qualifying technology and satisfy the energy efficiency criteria for that technology. A list of the qualifying designated technologies can be found at **CA23140**. The Department of Energy and Climate Change publish the **Energy Technology List** website. This site provides details of named products that automatically qualify for ECA and outlines the eligibility criteria for unlisted products.

For further guidance see **CA23140**.

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6. Where any assets have been purchased on hire purchase have they been brought into use?

Risk
Where an asset is acquired by instalments under a hire purchase type contract the full amount of the purchase price may not immediately qualify for capital allowances. The date on which the expenditure is treated as being incurred will depend on whether the asset has been brought into use.

Mitigation
Check the date on which any assets acquired under a hire purchase contract have been brought into use for the purposes of the qualifying activity.

Explanation
Under the general conditions for plant and machinery allowances a person has to own the asset in order to claim allowances. See Q1 above .Where a person has a contract to purchase an asset by instalments and the contract provides that the person shall or may become the owner of the asset the seller usually keeps legal ownership of the asset until the last instalment has been paid. However, for capital allowances purposes the person who has the contract and who makes the payments is treated as the owner of the asset and is able to claim allowances.

Once the asset is brought into use the capital amount of any future payments is treated as incurred immediately.

Until the asset is brought into use the four month rule applies, as described at Q4 above. This means that until the asset is brought into use instalments which are due more than four months after the contract was entered into, are treated as incurred when they are paid.

For further guidance see **CA11800+** and **CA23310**.

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Disposals

7. If any assets have been disposed of during the period has the disposal value been included in the capital allowances computation?

Risk
Where an asset for which capital allowances, including Annual Investment Allowance (AIA), have been claimed is disposed of, a disposal value should be accounted for even if the balance of expenditure in the pool is nil. If any disposals are overlooked the capital allowances computation will not be accurate.

Mitigation
Check whether there have been any disposals during the period. Ensure that all documentation relating to the disposal is retained, and that it is accurately reflected in the capital allowances computation.

Explanation
The following are common disposal events for which a disposal value has to be accounted for:

- sale of the asset
- gifting the asset
- destruction of the asset
- use of the asset for purposes other than those of the qualifying activity
- permanent discontinuance of the qualifying activity.

For further guidance see **CA23240**.

back to checklist

8. Have the correct disposal values been accounted for?

Risk
Where an asset is disposed of the full disposal value should be accounted for in the capital allowances computation. The disposal value will depend on the nature of the disposal event.

Mitigation
Establish the circumstances of the disposal and ensure that the correct disposal value is accounted for in the capital allowances computation. Ensure that the disposal value is deducted from the appropriate pool.

The disposal value is normally limited to the amount of expenditure incurred on the acquisition of the asset by the person bringing the disposal value to account but there are exceptions to this rule for example where the item was purchased from a connected person - see Q28.

For further guidance see **CA23250+** and **CA26700+**.

Explanation
The sale of an asset is the most common disposal event, and in these cases the disposal value will normally be the net proceeds of sale.

However, examples of a disposal value other than sale proceeds are:

- if the asset is lost, demolished or destroyed the disposal value includes any insurance receipts or compensation. The date of disposal in such cases is the date the asset is lost, demolished or destroyed
- if the asset ceases to be used for business purposes and is retained in a personal capacity, the disposal value should be the market value.

back to checklist

9. Has the value of any assets disposed of in part exchange for a new asset been accounted for appropriately?

Risk
If an asset is disposed of in part exchange for another asset the part exchange value needs to be reflected in the capital allowances computation for the computation to be accurate.

Mitigation
Where an asset has been offered in part exchange ensure that the disposal value is accurately reflected in the capital allowances computation.

Explanation
An asset offered in part exchange is a sale of the asset. The disposal value is therefore the amount offered in part exchange.

For further guidance see **CA11540**.

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10. Has the correct disposal value for assets purchased on hire purchase been accounted for?

Risk
The disposal value for assets purchased under hire purchase agreements will depend on whether or not the contract has been assigned.

Where an asset which is being acquired under a hire purchase contract is disposed of by assigning the contract, the amount to be accounted for will depend on whether the asset has been brought into use for the purposes of the qualifying activity.

Mitigation
Check to see if the contract was assigned.

Check whether the asset has been brought into use for the purposes of the qualifying activity. Ensure that the correct disposal value is accounted for accordingly (see explanation below).

Explanation
An asset which is being acquired under a hire purchase agreement cannot be sold to another person as a person is only treated as the owner for capital allowances purposes. The legal owner is the HP lessor. The asset can be transferred to another person by assigning the lease.

If a business ceases and the HP contract is not assigned then a disposal value has to be brought into account. No other person can claim allowances on the asset as unless the contract is assigned no other person can be treated as the owner of the asset.

Where the contract has been assigned:

If the asset has been brought into use for the purposes of the qualifying activity the disposal value is the total of:

- any capital sums received as consideration, compensation, damages or insurance for the persons rights under the contract or the asset, and
- expenditure treated as incurred when the asset was brought into use but not yet incurred.

If the asset has not yet been brought into use for the purposes of the qualifying activity the disposal value is:

- any capital sums received as consideration, compensation, damages or insurance for the persons rights under the contract or the asset.

For further guidance see **CA23330**.

back to checklist

Non-business use adjustments

11. Have all business assets used for non-business purposes been identified?

Risk
Non-business use of assets often applies to unincorporated businesses, the most common example being private use of motor vehicles.

However, it may also apply to companies. Broadly speaking, company expenditure on assets provided for directors' and/or employees' use as part of their remuneration package is accepted as incurred wholly and exclusively for the purposes of the qualifying activity and consequently for capital allowances purposes. But, there are occasions when there may be non-business use of assets in a company. For example, a company may have an asset which it uses partly for a qualifying activity and partly for an activity not within the charge to UK tax. In these circumstances the capital allowances computation should be adjusted accordingly.

The amount of allowances claimed for assets that are only used partly for the purposes of the qualifying activity should be reduced. If any non-business use is overlooked the capital allowances claim will not be accurate.

Mitigation
Identify any assets that are used partly for purposes other than those of the qualifying activity. Experience tells us that motor vehicles are the main group of assets that are used for non-business purposes. There are however, less obvious types of assets such as computers etc. that can also be used for non-business purposes.

In these circumstances the allowances for any business assets used for non-business purposes should be reduced (see Q12+). There are also special rules relating to cars (see Q17+).

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12. Have the allowances for any asset used partly for non-business purposes been reduced?

Risk
If the allowances claimed are not reduced in line with the amount of the non-business use the capital allowances computation will not be accurate.

Mitigation
Establish the amount of any non-business use of an asset and adjust the capital allowances computation accordingly.

Explanation
The amount of Annual Investment Allowance (AIA) claimed for an asset used partly for non-business purposes should be reduced to reflect the amount of non-business use. The reduction

must be made on the basis of the likely extent to which the asset is used for purposes other than those of the qualifying activity. Any reduction of AIA is not available to set against other expenditure.

Any remaining expenditure that is not covered by the AIA should go into a single asset pool. The amount of writing-down allowances (WDA) should be reduced to reflect the amount of non-business use. The reduction must be made on a just and reasonable basis taking account of the extent to which the asset is used for purposes other than those of the qualifying activity. Only the reduced amount of WDA should be claimed; however the full amount of WDA should be deducted in calculating the qualifying expenditure to carry forward.

For further guidance see **CA27005+** and **CA23087**.

back to checklist

13. Is the reduction in the writing-down allowances claimed for an asset with non-business use accurate?

Risk
If the extent of non-business use is estimated, the reduction to the allowances claimed may not be accurate. If records are kept they may not be sufficiently robust to ensure an accurate record of non-business use. Apart from vehicles provided to employees as part of their remuneration package, if a business vehicle is a car then the capital allowances claimed are usually restricted to reflect non-business use.

Mitigation
Ensure that there is an adequate record keeping system in place to establish any non-business use. Usually it will be sufficient to keep a record of business and non-business use to demonstrate that the reduction to allowances is just and reasonable.

back to checklist

14. If a non-business use adjustment was made in an earlier period has the reduction been reviewed to ensure that it is still just and reasonable?

Risk
It is common for any non-business use to be discussed only when an asset is first acquired. Any adjustment is then carried forward to later periods. However, personal or business circumstances may change and could affect the correct level of any non-business use, for example moving home or business premises, change of business vehicles etc.

Mitigation
Review any non-business use adjustment against current circumstances and records, and update accordingly.

back to checklist

15. Has the balancing adjustment (allowance or charge) of any asset which has been used partly for non-business purposes and has been disposed of been adjusted appropriately?

Risk
Where an asset which has been used partly for non-business use is disposed of the amount the balancing adjustment (allowance or change) needs to be restricted by the average non business use over the life of the asset.

Mitigation
Review the degree of non-business use when any asset which is used partly for non-qualifying activities is disposed of. The amount of any balancing adjustment should be reduced on a just and reasonable basis to reflect the degree of any non-qualifying use.

Explanation
If there is a disposal of the asset you should calculate the balancing adjustment in the normal way. This should then be reduced using an average of the non-business use of the asset over the period of ownership.

Where the qualifying expenditure was covered by AIA the disposal value should be taken to a single asset pool. The amount of the balancing charge should be reduced taking account of the extent of non-business use during the period of ownership.

For further guidance see **CA27005+** and **CA23086**.

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16. Have appropriate adjustments been made for any business vehicles used for journeys between home and work?

Risk
Travel between home and work is generally considered to be private/non-business use. If this non-business use is not identified the allowances claimed will not be accurate.

Mitigation
Check whether a business vehicle has been used for home to work travel. Consider whether this is non-business use and whether a reduction in the allowances claimed is appropriate.

However, please note that if an asset is provided to a director or employee as part of a remuneration package, then the cost of providing it to them is incurred wholly and exclusively for the purposes of the qualifying activity and therefore allowances should not be restricted.

For further guidance see **Business Income Manual BIM37605** and **CA27100**.

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Cars

17. Have all business vehicles which are cars for capital allowances purposes been identified?

Risk
If vehicles are not properly identified as cars, the capital allowances computation may not be accurate.

Mitigation
Review the business vehicles and consider whether any of them are a car for capital allowances purposes.

Explanation
For plant and machinery purposes, a car is a mechanically propelled road vehicle except a vehicle:

- constructed in such a way that it is primarily suited for transporting goods of any sort, or
- of a type that is not commonly used as a private vehicle and is not suitable for such use.

For example:

- a dual control driving school vehicle is not a car
- a hackney cab (i.e. a 'London or black cab' type of vehicle) is not a car
- a minicab is a car
- whether a dual-cab pickup truck is a car will depend on its payload.

For further guidance see **CA23510**.

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18. Have all cars been excluded from the Annual Investment Allowance qualifying expenditure?

Risk
Cars are excluded from being eligible for Annual Investment Allowance. If vehicles are not properly identified as cars and excluded, then the capital allowances computation will not be accurate.

Mitigation
Correctly identify all cars and exclude them from the qualifying expenditure eligible for Annual Investment Allowance.

For further guidance see **CA23510**.

back to checklist

19. Have the correct capital allowances rules for cars been applied?

Risk
The capital allowances treatment of qualifying expenditure on cars depends on the date the car was purchased, the carbon dioxide (CO_2) emissions and (for first year allowances) whether the car is new.

Expenditure on a new and unused car from April 2018 which is electric or has CO_2 emissions of 50g/km or less may be eligible for a 100% first year allowance. Expenditure on other cars will only be eligible for writing down allowances, either at the special rate (8%), (6% with effect from April 2019) or the main rate (18%).

Mitigation
Check the date of purchase and where the qualifying expenditure relates to cars purchased after the introduction of the current rules, in April 2009, consider the CO_2 emissions.

The expenditure on any car that is used partly for non-business use must be pooled in a single asset pool. The rate of WDA for each single asset pool for a car will depend on the car's CO_2 emissions. See Q21 below.

For further guidance see **Claim capital allowances - Business cars**.

Explanation
For cars bought between April 2013 and April 2015 the following rules apply:

- If the car is new and unused with CO_2 emissions of 95g/km or less or electric, a 100% first year allowance can be claimed
- If the car is new and unused with CO_2 emissions between 95g/km and 130g/km or second hand with CO_2 emissions of 130g/km or less or electric, the expenditure can be added to the main pool with allowances calculated at the main rate (18%)
- If the car is new or second hand, not electric, and with CO_2 emissions above 130g/km, the expenditure can only be added to the special rate pool with allowances calculated at the special rate (8%).

For cars bought between April 2015 and April 2018, the CO_2 emissions thresholds for the first year allowance is 75g/km.

For cars bought before April 2013, the CO_2 emissions threshold for the first year allowance was 110g/km and the threshold for the main rate of writing down allowance was 160g/km.

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20. Has a mileage allowance been paid to anyone for use of a vehicle on which capital allowances have been claimed?

Risk
Where a mileage allowance has been paid, capital allowances may not be applicable. For example where the vehicle is not owned by the company or business and/or an allowance is paid other than solely for reimbursement of fuel costs.

Mitigation
Check whether a mileage allowance has been paid. Consider the ownership of the vehicle and whether capital allowances are appropriate.

back to checklist

21. Have any sale proceeds for cars on which first-year allowances have previously been claimed been dealt with correctly?

Risk
If a car, on which 100 per cent first-year allowances (FYA) have been claimed, is the only asset for which capital allowances have been claimed the written down value carried forward after FYA is nil.

In these circumstances, if the car is disposed of the proceeds from the disposal should not be overlooked from the capital allowances computation.

Mitigation
Disposal proceeds should be deducted from the pool even if the balance of the pool is nil. This may result in a balancing charge. Balancing charges are added to profits.

For further guidance on cars qualifying for 100 per cent FYA see **CA23153**.

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General

22. Has depreciation, impairment, revaluation movements and any profit or loss on sale been added back to the accounts profit in the tax computation?

Risk
Depreciation is generally not an allowable expense for tax purposes.

There is a risk that the depreciation, impairment and revaluation movements may not be added back to profit in the tax computation appropriately. Depreciation, impairment and revaluation movements should be added back in the computation even where capital allowances have not been claimed.

Mitigation
Ensure that depreciation, impairment and revaluation movements are added back to the profit in the tax computation.

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23. Are all assets on which expenditure has been incurred still owned by the business at the time of their introduction into the pool for capital allowances purposes?

Risk
Whilst capital expenditure is generally incurred when the obligation to pay becomes unconditional see **CA11800**, there is no legislative restriction on when assets on which qualifying expenditure has been incurred must be brought into the capital allowance pool.

However, expenditure can only be allocated to a pool in a chargeable period if the person owns the plant or machinery at some time in that period.

Where expenditure qualifying for capital allowances is identified following a review and brought into the pool in a period after acquisition there is a risk that the asset(s) has already have been disposed of.

Mitigation
Where expenditure incurred in earlier accounting periods is introduced into the pool it is important to establish that the relevant asset(s) are still owned by the business at the time of their introduction.

Explanation
An asset must be owned at some point during the chargeable period in which it is introduced to the pool.

In the cases where reviews are undertaken with a view to claiming previously unclaimed capital allowances on qualifying assets (including fixtures), or where expenditure incurred on specific assets has not been included in capital allowances computations for the year of acquisition, it is important to ensure that the asset(s) haven't been subsequently disposed of prior to the chargeable period in which the claim is made.

For further guidance on disposal events see **CA23240**.

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24. If the chargeable period is longer or shorter than 12 months have the allowances claimed been increased or reduced appropriately?

Risk
Capital allowances are made for a chargeable period. Where the chargeable period is longer or shorter than 12 months the allowances claimed should be apportioned appropriately.

Mitigation
Ensure that the allowances claimed reflect the length of the chargeable period.

Explanation
A chargeable period is:

- an accounting period (Corporation Tax)
- a period of account (Income Tax).

An accounting period (for Corporation Tax) cannot be longer than 12 months although it may be shorter.

A period of account for other businesses cannot exceed 18 months; for periods up to and including 18 months capital allowances should be apportioned in relation to the length of the period.

If accounts are drawn up for a period longer than 18 months this should be split into different periods of account. For example, if accounts are drawn up for 20 months the period should be split into one 12-month period and an 8-month period with capital allowances apportioned for the 8-month period. This includes Annual Investment Allowance and Small Pools Allowance.

Allowances should also be reduced proportionately if the qualifying activity has been carried on for only part of the accounting period.

For further guidance see **CA11510**.

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25. Has Annual Investment Allowance only been claimed where there is a qualifying person?

Risk
Annual Investment Allowance (AIA) can be claimed for expenditure on general business equipment including long life assets and integral features (but not cars) up to the annual amount. AIA is only available where the expenditure is incurred by a qualifying person.

If AIA is claimed when expenditure is not incurred by a qualifying person the capital allowances computation will be inaccurate.

Mitigation
Consider whether the expenditure and person are 'qualifying' for AIA purposes, see explanation below. Ensure that where there is a mixed partnership of companies and individuals or a trust that AIA has not been claimed.

For further guidance see **CA23082**.

There are certain other restrictions to AIA entitlement for example when there are related incorporated or unincorporated businesses.

For further guidance on these restrictions see **CA23087+**.

Explanation
‘Qualifying person’ means:

- an individual
- a partnership of which all the members are individuals
- a company.

Trusts, mixed partnerships of companies and individuals or partnerships with a partnership (including an LLP) as a member are not qualifying persons for AIA. For further guidance see **CA23082**. Even where there is a qualifying person there may be restrictions to the total AIA that can be claimed.

For **Corporation Tax**, each of the following is only entitled to one AIA which can be shared or allocated in any way the businesses see fit:

- a single company - even if it carries on more than one qualifying activity
- a group of companies
- groups of companies under common control
- other 'related' companies under common control.

For **Income Tax**, where two or more qualifying activities carried on by an individual or by individuals in partnership are carried on or controlled by the same person(s), and are 'related' to one another, then they are entitled to a single AIA between them that may be allocated between the qualifying activities in any way they see fit.

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26. Is the Annual Investment Allowance claimed appropriate to the qualifying expenditure incurred in the chargeable period?

Risk
Annual Investment Allowance (AIA) can only be claimed in the chargeable period in which the qualifying expenditure is incurred. Where the qualifying expenditure incurred is more than the maximum allowance, the business can only claim this maximum amount. Where the qualifying expenditure incurred is less than the maximum allowance the business can claim AIA up to the amount of qualifying expenditure incurred.

Mitigation
Review the acquisitions and ensure that AIA is only claimed on qualifying expenditure incurred on or after the relevant date and that expenditure was incurred in the same chargeable period.

Unused AIA cannot be carried forward for use in a later chargeable period.

For further information see **Claim capital allowances - Annual Investment Allowance** and **Capital allowances on plant and machinery**.

Explanation
The maximum amount of AIA was increased to £250,000 for qualifying expenditure incurred on or after 1 January 2013 for both Corporation Tax and Income Tax and further increased to £500,000 for qualifying expenditure incurred on or after 1 April 2014 for Corporation Tax and 6 April 2014 for Income Tax. The maximum amount of AIA for expenditure incurred on or after 1 January 2016 was £200,000 until 1st January 2019 when the maximum amount was increased to £1m until 31 December 2020. Where an accounting period straddles when there were two different maximum amounts for AIA, the maximum amount is calculated by reference to the maximum amounts in part of the straddling period.

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27. Have there been any assets disposed of to, or acquired from, connected parties (this includes transactions made as part of a business incorporation)?

Risk
Where an asset is disposed of to, or acquired from, a connected party the allowances available are sometimes restricted. If allowances are not restricted in particular circumstances the computation will not be accurate.

Mitigation
Establish whether there have been any transactions with connected parties and adjust the capital allowances computation accordingly.

Explanation
For capital allowances purposes there are a range of ways that individuals, businesses and companies can be connected with each other.

Details of how you decide if one person is connected with another are set out at **CA11630**. The circumstances in which restrictions should be made include (but are not limited to):

- if an asset is acquired from a connected person then the expenditure is not eligible for AIA or FYA
- if an asset is disposed of, which was acquired from a connected person, then the disposal proceeds are restricted to the greater of the following;
  - the qualifying expenditure incurred by the disposer
  - the qualifying expenditure incurred on the asset by the connected person.

For further guidance see **CA23087** and **CA23250**.

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28. Has a property together with fixtures that are plant and machinery been acquired or disposed of?

Risk
From 1 April 2012 for Company Tax Returns and 6 April 2012 for Income Tax Self Assessment tax returns new rules apply for claiming plant and machinery allowances on fixtures that are acquired with a building. These rules were extended from 1 April 2014 for Corporation Tax and 6 April 2014 for Income Tax. If the new rules are not followed correctly there may be an incorrect claim to capital allowances.

It is for the new owner to show whether or not the new rules apply. If the new owner is not able to supply evidence that the requirements have been met, they will not be able to claim plant and machinery allowances on expenditure on fixtures acquired from a past owner.

Mitigation
Check to see if there have been any relevant acquisitions or disposals in the period. Ensure both parties to the transaction have agreed the value of the fixtures in line with the legislation. For more information see **Plant and machinery: allowances on fixtures when there's a change of ownership or Revenue & Customs Brief - 03/13**.

Explanation
The total allowances given on a fixture are limited to the original cost of that fixture. Under the new rules for acquisitions and disposals of properties from April 2012 the availability of capital allowances to a purchaser of second-hand fixtures is conditional on:

- the seller pooling the relevant expenditure on fixtures in the property prior to them being transferred to the buyer, (the pooling requirement) and
- within two years of a transfer, the seller and purchaser either formally agreeing a value for fixtures, or commencing formal proceedings to agree the value, (the fixed value requirement).

However the pooling requirement does not have to be met for transfers before 1 April 2014 for Company Tax Returns and 6 April 2014 for Income Tax Self Assessment returns.

The fixed value requirement will only apply where the past owner is required to bring a disposal value into account in respect of the fixture (that will be the case where the past owner has previously pooled their expenditure on the fixtures).

The seller and the buyer must agree the value of the fixtures either by making an election under either:

- **S198 CAA2001** (when the seller ceases to be treated as the owner of a fixture because of a sale of their qualifying interest in the property) or
- **S199 CAA2001** (where a capital sum is given on the grant of a lease and the new lessee, the buyer, is treated as the owner of the fixtures for capital allowances purposes).

In a few exceptional cases written statements of previous transactions and claims may be required. For example, when a business has permanently ceased and a property is not sold, a disposal value for fixtures is brought into the capital allowances computation for the final accounts. Some years later, if the property is sold, the buyer has to obtain a written statement, from the seller, within two years of the sale of the property, confirming the disposal proceeds they brought into account.

For further guidance on changes in ownership of fixtures see **CA26470+**. For guidance on elections to fix apportionments see **CA26800** and **CA26850**.

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