



## **Corporation Tax Super-Deduction – A tax relief you mustn't miss**

**In the 2021 Spring Budget the UK government announced two new temporary tax reliefs to support the UK economy.**

The **super deduction** and **special rate capital allowance**, aims to stimulate business investment and promote economic recovery as society moves out of lockdown.

### **What is a Capital Allowance and what does it mean for businesses?**

Capital allowances are the tax deductions which businesses get for buying 'assets' i.e. equipment / vehicles / machinery.

The tax relief works by reducing the taxable profit by claiming 130% of the cost of some qualifying expenditure.

If your taxable profit is lower, your corporation tax bill will be lower.

### **What do I have to do?**

If you are considering buying new or replacing assets / equipment – do it before March 2023.

Your accountant (i.e. LKA) will claim this tax relief for you when we prepare your annual corporation tax return.

### **Who can claim and what's the deadline?**

Limited Companies can claim the Super Deduction allowances. Sole Traders and Partnerships are not eligible.

Expenditure on qualifying assets must be incurred between 1 April 2021 and 31 March 2023 and the allowances only apply to contracts entered into after 3 March 2021.

### **What Expenditure Qualifies for Super Tax Deduction?**

The 130% super-deduction applies to new (not second hand) "main rate" capital allowance expenditure. Most assets would fall into the "main rate" category:

- Computer equipment and servers
- Tractors, lorries, vans – not cars
- Ladders, drills, cranes
- Office chairs and desks

- Electric vehicle charge points
- Refrigeration units
- Compressors
- Foundry equipment
- Vehicles used for trading purposes (not cars)

The SR allowance covers new plant and machinery that qualifies for the special rate pool which includes integral features in buildings and long-life assets.

Each of the following is an integral feature of a building or structure:

1. An Electrical System (including a lighting system).
2. A Cold-Water System.
3. A Space or Water Heating System, a powered system of ventilation, air cooling or air purification, and any floor or ceiling comprised in such a system.
4. A Moving Walkway such as a lift or an escalator.
5. External Solar Shading.
6. Solar Panels

The expenditure must be incurred between 1 April 2021 and 31 March 2023.

## Corporation Tax Rate

With the Corporation Tax rate set to increase from 2023 to 25%, careful planning will be needed to ensure that capital allowances and loss claims are managed in a tax-efficient manner.

The introduction of these new temporary capital allowances means that companies have no incentive to defer capital expenditure until April 2023 (to avail of the higher rate of tax relief).

By incentivising company expenditure and investment now as the country emerges from lockdown, the hope is that it should have a positive impact on job-retention and the wider economy.

## Example

James owns "James Design Services Ltd". He purchased a second-hand desk for £500 and also a brand-new van for £20,000.

His profits (before considering the asset purchases) were £60,000 for the year.

The desk was second-hand, so does not qualify for the super-deduction. He can still claim £500 of the Annual Investment Allowance.

The new van was brand new so will qualify for the super deduction. 130% of £20,000 is £26,000.

His taxable profit will be artificially reduced by £26,500 (£500 + £26,000) and so his corporation tax liability will be £6,365 (19% of £33,500).

**Claiming the super-deduction on the van saved James £1140 of corporation tax, in comparison to the old rules.**

The super-deduction and capital allowances are great examples of an area of tax where accountants and tax advisors work well together.

Please get in touch now if you want to know more about the corporation tax super-deduction. Call **020 3915 8585** or email [enquiries@lkassociates.co.uk](mailto:enquiries@lkassociates.co.uk).