

Capital Allowances 2007/08

Capital allowances are the amounts of expense that can be offset against profit as given by the government. It is capital allowances and not depreciation that is used when calculating tax liabilities for both the self employed, partnerships and limited companies.

For the tax computation, the depreciation is a non allowable expense, and is written back, and then the capital allowances are deducted to come to the final profit figure that will then be taxed.

The current capital allowances available are

Plant and Machinery

First year allowance – SME	40%
Small business (2007/08)	50%
Written down allowance (WDA)	25% reducing balance
WDA – long life assets	6%
Energy Savings	100%

Motor Cars (max of £3000 per year) 25% reducing balance

Industrial Buildings WDA 4% straight line

Enterprise Zones	first year	100%
	WDA	25% straight line

Land Remediation Tax Relief	150% for investors
	50% for developers

If a client or company has not made enough profit to offset the capital allowances available they can be carried forward into subsequent years.

A capital allowance account should be kept for companies with more than a few simple assets.

Pools of assets can be held, as with plant and machinery, including cars/vans costing less than £12,000. Cars worth more than £12,000 must be detailed separately.

In the case of most small businesses it is generally sensible to calculate depreciation on assets as if they were capital allowances and to use the appropriate percentages. This prevents mistakes being made when calculating the tax liability, and there are no differences in the two amounts.

Capital Allowances provide a very valuable form of relief for capital expenditure, but can be very complex in both their application and interpretation. For strategic and specialist advice on capital allowances as they relate to the sale, purchase, construction, refurbishment or fit-out of property please refer to Roche Associates.

Knowing when Capital Allowances have gone beyond the basics is important.

HelpAccountants would recommend that when capital allowances go beyond the standard reliefs that advice is sort.

Roche Associates advises on Capital Allowances and Land Remediation Tax Relief.

[Rocheassociates](#)

Please note that the Capital Allowances for Plant and Machinery – First Year Allowance (small businesses) rose to 50% from 6th April 2006.

Business Link has a guide to First Year Allowances

<http://www.businesslink.gov.uk>

under Taxes, Returns and Payroll

Please note that Capital Allowances on Plant and Equipment has fluctuated between 40 and 50%

The rate of first year allowances for small businesses investing in most types of plant and machinery will be increased from 40% to 50% from 1 April 2006 (or 6 April 2006 for businesses in the charge to income tax) for one year.

The definition of a small business for these purposes is the same as set out in the Companies Act 1985. The first year allowance was 40% in 2003, increased to 50% in 2004, decreased back to 40% in 2005, and has now been increased again to 50% for 2006.

From 6th April 2008 Capital Allowances will be 100% for SMEs up to £50,000.