

What are Super-deductions?

A new tax investment incentive for companies

Perhaps the most innovative give-away in the recent budget was “Super-deductions for investment expenditure”.

What does this mean?

Companies that invest in qualifying plant and machinery in the period from 1 April 2021 to 31 March 2023 will benefit from enhanced capital allowances. Investments in assets that qualify for the main rate of capital allowances of 18% will benefit from a 130% first-year allowance. This means that for every £100 that you spend, you can deduct £130 in computing your taxable profits. This is equivalent to a tax saving of 24.7%.

What this does not mean?

What this change does not mean is the notion that you can deduct 130% of the cost of a qualifying purchase from your tax bill. The deduction is made from your company's taxable profits.

For example...

If your company invests say £5,000 in qualifying plant it will be able to write off £6,500 (£5,000 x 130%) against its taxable profits. If your company has taxable profits more than £6,500, it will save £1,235 (£6,500 x 19%) in corporation tax. Which means:

- Your tax saving is 24.7% (£1,235/£5,000) of your investment cost, and
- The net cost of your investment is effectively £3,765 (£5,000 - £1,235).

Beware the fine print

As you would expect, there will be circumstances – grey areas – where the legislation that maps out the do's and don'ts to claiming this relief will deny you the 130% deduction. In their notes describing the proposed changes HMRC said:

“Certain expenditures will be excluded..., 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. Plant and machinery expenditure which is incurred under a Hire Purchase or similar contract must also meet additional conditions to qualify for the super-deduction...”

And there are alternatives

Even if you cannot claim this 130% Super-deduction, your expenditure may qualify for the existing 100% Annual Investment Allowance, a 50% or 100% First Year allowance or a range of writing down allowances.

Check out if you could claim

However, this is a significant incentive to invest if your company is likely to be profitable from 1 April 2021. To ensure that any significant investment you may make will qualify for the Super-deduction or to discuss other tax options, please call.

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