



Budget 2009 – Capital allowances commentary

The main capital allowances headline from the Budget was the announcement of a temporary 40% first year allowance (FYA) for expenditure on general plant and machinery applicable to expenditure on plant and machinery allocated to the main capital allowances pool that is not covered by the £50,000 Annual Investment Allowance. This represents a doubling of the normal writing-down allowance (WDA) of 20% and is available to individuals, partnerships and companies.

It applies to expenditure incurred in the 12 month period from 1 April 2009 for corporation tax purposes and from 6 April 2009 for income tax purposes. The normal exceptions for FYA apply, meaning that it is not available for expenditure on “special rate” expenditure (including long-life assets and integral features), cars, and assets for leasing.

Whilst any increase in tax relief has to be welcomed, especially in the light of the reductions in the rates of plant and machinery allowances which came into force last year, it is not clear that it will have the desired effect of increasing investment given it is merely a timing measure and therefore is unlikely to be a major factor in the criteria for investment decisions.

Other capital allowances measures included in the Budget were:

- Revisions to the Enhanced Capital Allowances (ECA) scheme, providing a 100% FYA, for energy-saving and water efficient (environmentally beneficial) technologies to include one new technology (uninterruptible power supplies) and two new sub-technologies (air to water heat pumps and close control air conditioning systems). However, three existing sub-technologies (air source: single duct and packaged double duct heat pumps, ground source: brine to air heat pumps and water source: packaged heat pumps) are to be removed. This will come into effect on a date appointed by Treasury Order made before the Summer 2009 Parliamentary recess;



- Further anti-avoidance rules to counter perceived avoidance in respect of leasing plant or machinery, first announced in the November 2008, to be included in Finance Bill 2009, together with some additional measures regarding sale and leaseback arrangements and initial lease payments, which will have effect on or after 22 April 2009; and
- Confirmation that the new rules for claiming tax relief for business expenditure on cars will have effect on or after 1 April 2009 for corporation tax purposes and 6 April 2009 for income tax purposes. Under the new rules the amount of tax relief will be governed by a car's CO2 emissions. Expenditure on cars with CO2 emissions exceeding 160g/km will be placed in the special rate pool with a WDA of 10%, while expenditure on cars with CO2 emissions of 160g/km or below will be placed in the main pool with a WDA of 20%. There are specific anti-avoidance provisions to prevent the generation of balancing allowances by selling cars in single asset pools at less than market value. In addition, the rules restricting the amount of car lease rental payments available for tax relief will also be changed, with the restriction now being a flat rate disallowance of 15% of the lease payments, but only applicable to cars with CO2 emissions exceeding 160g/km.

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