

CAPITAL ALLOWANCE CHANGES

Tax relief on capital expenditure is an area where in our experience tax relief can be missed out on because qualifying assets are not all identified, particularly where property is involved.

In the last budget Gordon Brown announced various changes to the capital allowance regime to take effect from April 2008. The correct classification of assets will become even more important. These proposed changes are now under consultation. The key points are:

- The rate at which capital allowances are to be claimed on the main pool is being reduced from 25% to 20%. If your plant pool is £100,000 you will lose tax relief of £5,000.
- A hybrid rate is to be applied in the first year unless your accounting period ends on 31st March. If your year end is 30 June the capital allowance rate will be 23.75% for the year ending 30 June 2008, 22.5% for years ended 30 September 2008 and 21.25% for years ended 31 December 2008.
- A new rate of 10% for assets that are fixtures in buildings e.g. air-conditioning and heating and ventilation. Currently these attract relief at up to 50% in the year of acquisition followed by 25% per annum thereafter. This new rate is to apply for new assets acquired after 1 April 2008. If your business involves the use of property then this is going to slow down your tax relief thereby increasing your costs.
- An annual investment allowance of £50,000 per annum; the first £50,000 of spend will qualify for 100% relief. If you operate as a group of companies then this allowance is split equally between all of the companies in the group which could mean that as a whole the group does not benefit from 100% relief on the full £50,000.
- First year allowances of 50% for small companies and 40% for medium companies are abolished from 1 April 2008.
- An increase in the rate of relief for long life assets from 6% to 10%.
- Industrial and agricultural buildings allowances are to be phased out.

Overall will you be better or worse off. Whilst examples can be produced it is very dependent on individual company/group circumstances. If you are planning significant capital spend in the next 12 months you should talk to us now to maximise the relief that is going to be available.

For further information on any of the above please speak to your usual contact or:

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