Super-deduction and special rate first year allowance

The super-deduction and special rate first year allowance (SR allowance) temporarily increase reliefs for companies on qualifying expenditure on plant or machinery from 1 April 2021 to 31 March 2023. They were introduced at Budget 2021 and draft legislation and explanatory notes were issued at the same time. These are valuable reliefs where the date of expenditure is important for the asset to qualify so businesses will need to maintain records of dates of acquisition especially for larger projects that span 1 April 2021 and 1 April 2023.

The additional reliefs are split into two types:

- a super-deduction of 130% allowances on new plant or machinery that is not special rate expenditure, ie it would ordinarily qualify for the 18% main rate writing down allowance — see the Capital allowances computations guidance note, and
- a first year allowance of 50% on new plant or machinery that qualifies as special rate expenditure, ie it would ordinarily qualify for the 6% main rate writing down allowance — see the Special rate pool and long life assets guidance note. This is called the SR allowance in the legislation

Where assets are disposed of, on which either of these reliefs were claimed, there will be a balancing charge, which is detailed below, therefore separate records of the qualifying assets will need to be maintained in order to be able to calculate the balancing charge.

The allowances are available for companies only and not for self-employed businesses or partnerships. There are also the following restrictions for both types of relief:

- the expenditure has to be incurred on or after 1 April 2021 but before 1 April 2023. For these reliefs, where a contract has been entered into before 3 March 2021 (the day of Budget 2021) the expenditure is treated as being incurred on the date the contract was entered into and the exceptions for unconditional contracts do not apply
- the expenditure is not on plant and machinery that is used or second-hand
- the expenditure is not within the general exclusions in CAA 2001, s 46, which includes expenditure in a period when the qualifying activity permanently ceases, cars and plant and machinery used for leasing
- the provisions that treat pre-trading expenditure as incurred on the first day of trading are disregarded

There are additional qualifying conditions for expenditure on hire purchase assets.

Apportionment of expenditure for super-deduction

Where expenditure straddles the end of the qualifying period, ie 1 April 2023, the super-deduction rate is time apportioned for days falling prior to 1 April 2023 over the total days in the accounting period. The draft legislation issued at the time of Budget 2021 does not include any apportionment for periods that straddle the start of the qualifying period for the super–deduction.

The apportionment for periods straddling 1 April 2023 is calculated as follows:

- a divide the number of days in the accounting period before 1 April 2023 by the total number of days in the period
- b multiply the ratio at (a) by 30%, and
- c add 100% to the result at (b)

For a September 2023 year end this would work out as 182 days before 1 April 2023 divided by 365 days, ie 182/365, multiplying this by 30% gives 15% and adding 100% gives an amended rate of 115%.

Disposal of asset when a super-deduction has been claimed

When plant or machinery is disposed of and a claim for a super-deduction has been made on the expenditure there will be a balancing charge that will therefore be a taxable profit. The balancing charge is calculated differently depending on when the disposal takes place.

The balancing charge is the amount of the disposal value of the plant or machinery that relates to the expenditure on which a super-deduction was claimed. This is calculated by dividing the amount of expenditure on which a super-deduction was claimed by the total expenditure on which capital allowances were claimed either as a super-deduction, a first year allowance or within a pool. This is called the ‘relevant proportion’. The balancing charge is then the relevant proportion multiplied by the disposal value with any balance of the disposal value being taken to the plant and machinery pool. However, if the disposal takes place in a period that ends before 1 April 2023 or that straddles 1 April 2023, this amount is increased as detailed below.

Disposal in a chargeable period that ends before 1 April 2023

For disposals of assets on which a super-deduction has been claimed where the chargeable period of the disposal ends before 1 April 2023, the balancing charge is multiplied by 1.3.

Disposal in a chargeable period that straddles 1 April 2023

For disposals of assets on which a super-deduction has been claimed where the chargeable period of the disposal started before 1 April 2023 and ends after 1 April 2023, the balancing charge is multiplied by a factor that is calculated as follows:

- a divide the number of days in the accounting period before 1 April 2023 by the total number of days in the period
- b multiply the ratio at (a) by 0.3, and
- c add 1 to the result at (b)

For a September 2023 year end, this would work out as 182 days before 1 April 2023 divided by 365 days, ie 182/365, multiplying this by 0.3 gives 0.15 and adding 1 gives a factor of 1.15.

Disposal of asset when special rate allowance has been claimed

When plant or machinery is disposed of and a claim for a special rate first year allowance (SR allowance) has been made on the expenditure there will be a balancing charge that will therefore be a taxable profit. The balancing charge is the amount of the disposal value of the plant or machinery that relates to the expenditure on which a SR allowance was claimed. This is calculated by dividing the amount of expenditure on which a SR allowance was claimed by 2 and then dividing that by the total expenditure on which capital allowances were claimed either as a SR allowance, a first year allowance or within a pool. This gives the relevant proportion that is multiplied by the disposal value of the asset to give the balancing charge. Any remaining proceeds of disposal are taken to the special rate pool.

Where the whole asset qualified for SR allowance, the balancing charge will therefore be 50% of the disposal proceeds, but the relevant proportion calculation may be needed where part of an asset does not qualify, for example the plant or machinery is being built over a period of time and part of the expenditure occurs after 1 April 2023.

Anti-avoidance rules

There are anti-avoidance rules that counteract any arrangements where the purpose or one of the main purposes of the arrangements is to obtain a tax advantage that could be in relation to the super-deduction, the SR allowance or the avoidance of a balancing charge. The rules will take effect when the arrangements are contrived, abnormal or lacking a genuine commercial purpose, or they are intended to circumvent the limits of the relief.