How to fund fixed asset investment and make the most of tax relief

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100 YEARS 1919–2019

Case study

- Isobel is planning a £10m investment in a new factory

Isobel will need to spend money on:

- Purchasing a building - £6m
- Acquiring new machinery - £2m
- Acquiring second-hand machinery - £1m
- Equipment leases - £500k
- Computer equipment - £250k
- Solar panels - £500k
- Electric points for electric cars and vans for staff - £250k

New building - funding

- Commercial mortgages have an amortisation profile of up to 20 years with up to 70% loan to value
- Development loans are also available that can include a short term interest only build out period
- A business can usually borrow up to 50% of the land cost & 70% of the development cost
- A fixed rate or variable rate loan are available with rates dependant on the proposition

New building – capital allowances

- Structural building allowances – 3% p.a.

- Integral features and long life assets:
  - AIA available
  - 50% SR allowance (new equipment) - until 31 March 2023
  - 6% WDA

New building – corporates only

- Research and development allowances
    - 100% tax relief in year of acquisition
- Land remediation relief
    - 150% tax relief in year of acquisition or 16% tax credit for loss making companies

New machinery - funding

- Suitable assets
- You must own the equipment to qualify for super deduction (HP/ LP/AP)
- Standard profile: 60 months, 10% + VAT deposit
- Paying suppliers directly or refinancing?
- Staged payments
- Rates depend on the proposition

New machinery – the 'super deduction'

- Corporates only – temporary relief from 1 April 2021 until 31 March 2023
- Super-deduction of 130% for new P&M
- Partial claw back if machinery is sold

Super-deduction - example

- Purchase £2m of new machinery in accounting period ended 31 March 2022

- Super-deduction is £2.6m - saving corporation tax of £494k

- Super-deduction is reduced for periods straddling 31 March 2023

Super-deduction - disposal

- £2m of machinery is then sold for £500k
- If sale takes place in an accounting period commencing after 31 March 2023:
  - taxable balancing charge is £500k
- If sale takes place sooner, taxable balancing charge is uplifted

Second hand machinery - funding

- Doesn’t qualify for super deduction
- Still suitable for Asset Finance
- Age, reconditioning info key

Second hand machinery – capital allowances

- The Annual Investment Allowance (AIA) - £1m until 31 December 2021 then £200k

- Writing down allowances of 18%

Example – timing of expenditure and AIA

- Spend £1m in accounting period ended 31 March 2022

- Maximum AIA entitlement: 9/12 x £1,000,000 + 3/12 x £200,000 = £800,000

- BUT if expenditure is incurred after 1 January 2022 only £50,000 of AIA is available

Equipment leasing - taxation

- Operating lease – tax relief is available for lease payments
- Hire purchase – capital allowances are available
- Finance leases – depends on lease terms

Computer equipment and software - funding

- HSBC in partnership with 3 Step IT
- Hardware & software
- Finance lease with residual value
- In-life hardware & software management tool
- WEEE Directive

Computer equipment and software – tax treatment

- Capital or revenue?

  - Assets with useful economic life < 2 years are generally accepted as revenue

  - Tax deductible on an accounts basis when charged through P&L

Computer equipment and software – tax treatment

- Capital expenditure accounted for as a *tangible* asset
  - capital allowances are available
- Capital expenditure accounted for as an *intangible* asset
  - Tax relief follows accounting treatment and amortisation is deductible for tax purposes

Solar panels & electric points - funding

- Funding in the same way as plant and machinery
- Green funding

Solar panels – tax reliefs

- Special rate pool item – 6% WDA
- Can claim AIA
- 50% SR allowance for new solar panels

Electric points – capital allowances

- 100% first year allowance available until 31 March 2023

- New equipment only

Any questions?

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