

# CAPITAL ALLOWANCES: THE FACTS

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A guide to Capital Allowances,  
if you're eligible to claim,  
and how Ad Valorem  
can help you.



## Capital Allowances

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### What are Capital Allowances?

When a business purchases capital assets, the costs of these assets aren't tax deductible in the year of purchase, and the depreciation deducted in the accounts for these assets aren't usually deductible either. Instead, businesses receive relief for their qualifying capital costs via capital allowances, at specific annual rates set by the Government.

Capital allowances is usually a hot topic at the Government's annual budgets and Autumn Statements as it has such a large impact on UK investment levels, and therefore is subject to frequent changes. For example, in the most recent budget, the Chancellor announced the brand-new full-expensing rules, allowing unlimited 100% deductions for certain assets.

Capital allowance claims can be made up to two years after the end of the accounting period, and you can claim annually. You can also make claims for historic assets acquired, provided no claim has been made previously.

There are a number of capital allowances reliefs available:

- Included writing down allowances (at 18% and 6% depending on the asset),
- Annual Investment Allowances
- First Year Allowances
- Structures and Buildings Allowance
- Full-expensing

### What assets can I claim for?

There is a wide range of assets for which capital allowances can be claimed. It is vital that assets are categorised correctly to ensure that capital allowance claims are maximised as far as possible. Some common examples of eligible assets include manufacturing equipment, cars and IT equipment.

However, capital allowances can also be claimed for less obvious capital costs, such as office refurbishments, property development work and other capital items related to commercial property. These are commonly referred to as "embedded capital allowances".



### What are Embedded Capital Allowances?

Embedded capital allowances refer to the capital allowances which can be claimed for fixtures and fittings installed within properties. These can be less-straight forward to distinguish, as they can often be included as a one-line item in the fixed asset register, such as "shop refurbishment work", but can incorporate lots of different individual assets. E.g. This could include electrical work, air conditioning units, lighting systems and many other different assets.

Each of these assets then needs correctly categorising under the capital allowances rules. Analysis is required to not only establish whether assets are qualifying assets or not, but also the capital allowance pooling for each asset and the reliefs available.

The categorisation of assets can be tricky, as there is a vast amount of case law and legislation to analyse; e.g. the tax treatment of a mezzanine floor can be dependent on a variety of factors such as the actual and intended use of the flooring, and whether it's temporary or permanent. Even after these distinctions, some of the expenditure related to the mezzanine floor may not qualify, and so it is important that expert advice is sought.

### How can Ad Valorem help?

Ad Valorem has significant experience in completing successful capital allowances claims for clients. In particular, we can assist with the following:

- ✓ Capital allowances optimisation reviews
- ✓ Embedded capital allowances assessments
- ✓ Capital allowance advice for future investment plans

### Next steps:

Arrange a consultation with one of our tax specialists to see how we can help with your Capital Allowance claim.



Get in touch using the details on the back of this flyer to find out how we can help.



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