Capital allowances and balancing charges

Contacts
Please phone:
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- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

This helpsheet gives you information to help you fill in the capital allowances boxes in:
- the *Self-employment*, *UK property*, *Employment* and *Foreign* pages of your personal tax return, or
- the *Trading and professional income*, *UK property* and *Foreign* pages of the *Partnership Tax Return*,
- the *Trade*, *UK property* and *Foreign* pages of the Trust and Estate Tax Return
- the *UK property income* sections of the *Tax Return for a non-resident company liable to Income Tax*.

It explains:
- what capital allowances and balancing charges are
- how to make a claim
- what capital allowances are available
- the different types of plant and machinery allowances
- what happens if you use plant and machinery only partly for business purposes, or dispose of equipment
- the rules for cars
- special rules that apply to accounting periods that are different to the tax year
- the rules when you commence or cease your business
- claims for partnerships
- what allowances you can claim if you are an employee
- briefly about Business Premises Renovation Allowance and Flat Conversion Allowance
- where to enter capital allowances on the returns.

What are capital allowances and balancing charges?

In working out your business profits you should not deduct the cost, that is, the expenditure incurred, of buying or improving items such as a car, equipment or other tools that you use in your business or the depreciation or any other losses which arise when you sell them. Instead, you can claim tax allowances called capital allowances. These are deducted from your profit to arrive at your taxable profits, or added to your losses to arrive at allowable losses.

Generally, anything you use that has a useful economic life of at least two years may qualify for capital allowances. There are also special rules that apply to equipment with an expected life of between two and five years, which are explained on page 6.

Capital allowances do not apply to items that it is your trade to buy and sell as these items are included in business expenses.

An adjustment, known as a balancing charge, may arise when you sell an asset, give it away or stop using it in your business. Balancing charges are added to your taxable profits, or are deducted from your losses, in the year they occur.

How to claim capital allowances

The maximum amount you can claim in your tax return is the amount worked out from the rules set out in these notes.

Please contact us or your tax adviser if you need more help, or if:
- you do not want to claim the full amount of allowances, or
- someone else pays part of the cost (for example, by giving you a grant), or
- you had purchases from, or sales to, members of your family or other connected persons.

What amount can I claim?

The amount you can claim is based on the cost to you of the item, generally including installation costs if charged.

What if I bought machinery on hire purchase?

If you bought items, such as a van, to use in your business on hire purchase or by an alternative finance method, you can only claim capital allowances on the original cost of the item. The interest or other charges count as business expenses.

Does the cost of the item include Value Added Tax (VAT)?

The purchase price of an asset on which you can claim capital allowances sometimes includes VAT. If you are registered for VAT and can offset that VAT against your output tax when you make your VAT returns, you should only claim capital allowances on the net cost of the asset.

If you are registered for the VAT Flat Rate Scheme and enter details of your income and expenses net of VAT (that is, with the VAT taken off), you should only claim capital allowances on the net cost of the asset.

If you are not registered for VAT or can only claim an element of the VAT you have incurred, for example, because you are partly exempt, include the irrecoverable VAT paid in the capital costs on which you claim capital allowances.

Available capital allowances

Capital allowances are not given on all types of expenditure. The main exceptions are commercial buildings (apart from certain buildings in enterprise zones), residential buildings, land and some intangibles such as trade marks and goodwill. You can claim capital allowances for the following items:
- plant and machinery
- industrial buildings
- agricultural buildings
- flat conversions
- business premises renovation in assisted areas and Northern Ireland
- mineral extraction
- research and development
- know-how
- patents
- dredging.

You cannot claim capital allowance for plant and machinery (such as furniture and fixtures) for use in a dwelling house if you have a property rental business unless it qualifies as a furnished holiday lettings business. See the *UK Property notes* for further information.

There are special rules that apply if you carry on a qualifying care business these are described in Helpsheet 236 *Qualifying care relief: Foster carers, adult placement carers, kinship carers and staying put carers.*

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Not all allowances are available to everyone. For example, Trusts and mixed partnerships (in order words partnerships in which the members are not all individuals) are not 'qualifying persons' for the purposes of Annual Investment Allowances. You can find more information at **www.hmrc.gov.uk/manuals/camanual/ca23082.htm**

Scope of this helpsheet

This helpsheet gives a brief overview of the first of these allowances, as they are the most common type of allowances claimed. More detailed guidance about these and the other allowances can be found in the Capital Allowances Manual available at **www.hmrc.gov.uk/manuals/camanual/index.htm**

The helpsheet has been written on the basis that you have a 'standard' accounting period of 6 April to 5 April. If your accounting period is different, or longer or shorter than 12 months, then read the notes on pages 11 to 14.

Plant and machinery allowances – generally for equipment and tools

You can claim allowances, called Plant and Machinery Allowances, for the cost of vans, cars (subject to special rules), machines, equipment, tools, furniture, computers and similar items which you have bought and which you use in your business. You may be eligible to claim one or more different allowances but you cannot claim more than one allowance for the same expenditure. You can choose whether or not to claim and which allowances you wish to claim. You do not have to claim the full amount of the allowance but you must specify the amount you wish to claim on your return.

From 6 April 2010 the following type of plant and machinery allowances are available:

- Annual Investment Allowance (AIA) of up to £100,000.
- writing down allowances (WDA) – these are annual allowances, normally calculated at 20% a year, which reduce, or 'write down' any balance (or 'pool') of capital expenditure on equipment ('plant and machinery'), not already relieved by other allowances, including cars that have CO_2 emissions of 160 grams per kilometre driven (g/km) or less.
- a special rate WDA of 10% which applies to certain types of plant or machinery, such as electrical systems (for example, lighting), and cars that have CO_2 emissions of more than 160g/km.
- Small Pools Allowance – an alternative to the 20% WDA and 10% special rate WDA, which can be claimed for the whole balance in either the main or special rate pool where this is not more than £1,000.
- 100% first year allowances for investments in certain energy saving technologies and new, unused cars that have CO_2 emissions of 110g/km or less.
- balancing adjustments – which can be either an allowance or charge. These can arise in certain circumstances (for example, when your business ceases or you sell an asset for more than the total written down value of pool.)

More information about these allowances is set out below.

Annual Investment Allowance

You can claim an Annual Investment Allowance (AIA) if you bought equipment (but not cars) on or after 6 April 2010 up to an annual amount of £100,000. (Between 6 April 2008 and 5 April 2010 the annual amount was

£50,000.) Add the cost of all the equipment together and, if the total cost is £100,000 or less, you can claim 100% of that whole amount as your AIA. If the total is more than £100,000 you can claim up to £100,000. The balance can be added to the general pool of expenditure.

Writing down allowances

AIA is not available to trusts or to partnerships where the members are not all individuals. Where you have spent more than £100,000 in a year on equipment, or have purchased a car that has CO_2 emissions of 160g/km or less, (for more information about cars see pages 8 to 10), add all the expenditure together to make a 'main pool' of costs. Deduct any Annual Investment Allowance (AIA) up to £100,000 that you are claiming (exclude cars which are not eligible for AIA). You can then claim a writing down allowance of 20% of the remaining pool value (unless the expenditure is 'special rate' expenditure – see below).

Example 1

You have spent £120,000 on general equipment and the total expenditure is pooled. You can claim £100,000 of this as an Annual Investment Allowance. The balance of £20,000 qualifies for 20% writing down allowance, which is £4,000. The amount remaining in the pool (£16,000) should then be carried forward to the next year.

What is left is then carried forward to the next year and written down at 20%. This is illustrated in more detail in example 8.

Special rate expenditure

Certain items of equipment qualify for special rate allowances at 10% a year. For example:

- thermal insulation that you may have added to an existing building
- integral features (for example, electrical systems, cold water systems, lifts, escalators and moving walkways), and
- long-life assets (equipment with a planned economic life of over 25 years – see page 6).

You may use your £100,000 AIA wholly or partly against this expenditure, in preference to expenditure that qualifies at the 20% rate. Any balance of expenditure after the AIA has been taken off will be included in the 'special rate pool' and will qualify for allowances at 10%.

Example 2

James sells tropical fish. He incurs the following expenditure:

- £20,000 on new electrical and central heating systems for his main shop, which comprise 'integral features' qualifying for 10% WDA
- £130,000 on a new van and other general equipment, qualifying for 20% WDA in the main pool.

James can allocate his £100,000 AIA first to the £20,000 of 10% integral features expenditure, then the remaining £80,000 to the 20% main pool expenditure. The remaining £50,000 qualifies for WDA at 20%.

Total expenditure		£150,000
Allocation:		
Qualifying for AIA - integral features	£20,000	
- van & general equipment	£80,000	£100,000
Qualifying for WDA at 20%		£50,000

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Small pools of £1,000 or less

For accounting periods starting on or after 6 April 2008, if the balance in either your main pool or special rate pool, after deducting AIA and adding:

- proceeds from any items in the pool you may have sold
- any new expenditure; and
- any pool balance carried forward from the previous year

is £1,000 or less at the end of a 12 month chargeable period, you may claim that whole amount as a 'Small Pools Allowance', instead of the 20% writing down allowance or 10% special rate. This does not apply to single asset pools – see 'What if I use plant and machinery only partly for business purposes?' below.

Example 3

1 Paul spent £100,500 on equipment during 2010-11. The brought forward balance in the pool was nil. He claims the full £100,000 Annual Investment Allowance and, as the amount remaining is less than £1,000, he can claim the remaining £500 as Small Pools Allowance.

2 John spent £1,500 on equipment and brought forward a pool of £700 from 2009-10. He can claim the full £1,500 as AIA and the £700 pool brought forward as Small Pools Allowance.

100% first year allowances

You can claim 100% capital allowance for:

- designated energy-saving or water efficient equipment used in your business
- equipment for refuelling vehicles with natural gas, biogas or hydrogen fuel, even if you have otherwise used up your AIA
- new unused cars with low CO_2 emissions of not more than 110g/km. Cars are not eligible for the AIA
- new and unused zero-emission goods vehicles – see **www.hmrc.gov.uk/budget2010/bn05.htm** for more information.

For more information see **www.eca.gov.uk** or the Capital Allowances Manual available at **www.hmrc.gov.uk/manuals/camanual/CA23100.htm**

What if I use plant and machinery only partly for business purposes?

Where you use an item of equipment for both business and private purposes, the allowances you claim should be reduced by the amount of your private use so that only the business use proportion is taken into account. To do this, put each item which has any private use into a separate 'single asset' pool and reduce your capital allowances by the private use proportion.

Example 4

Gordon buys some tools for £5,000 and a van costing £10,000. The tools are used only for the business. The van is used 60% for the business and 40% for private use.

As the total cost is less than £100,000 potentially Gordon could claim the full amount as AIA. However capital allowances are only available for business expenditure. Because the van is used for private purposes, he is not entitled to that amount of AIA (or WDA) that relates to its private use, which is 40% of the cost of the van or £4,000.

This means that the Annual Investment Allowance he can claim is:

Tools	£5,000
Van (£10,000 *minus* £4,000)	£6,000
Total AIA	£11,000

Cars do not qualify for AIA. Therefore, if a car with CO_2 emissions of 159g/km costing £12,000 was bought after 6 April 2009 (for cars bought before that date see page 9) and is used 60% for business and 40% for private use, the cost or value would go into a separate pool.

The 20% annual allowance of £2,400 (£12,000 x 20%) would be reduced to 60% of that amount, that is to £1,440 (£2,400 x 60%).

Short life assets

There are special rules if you intend to keep an item of equipment for only a short time or if you think it will wear out quickly. If you acquire an item (other than a car) which you expect to dispose of within five years of the date you acquired it, you may 'elect' (decide), to have the capital allowances calculated separately from your main pool.

You must inform us of this decision in writing and it should be made no later than the first anniversary of 31 January following the end of the tax year in which you acquired the item. For example, if you bought a computer in the accounting period ended 31 July 2010, you must make the election by 31 January 2013. You cannot withdraw an election once it has been made.

The separate calculation of capital allowances means that when the asset is sold the allowances given can be adjusted by way of a balancing allowance or charge to bring them in line with the actual depreciation.

If the item has not been sold or disposed of by the end of the five year period, the balance in the 'separate pool' for that item is added to the 'main pool', then dealt with in the usual way. If you need more information, please ask us or your tax adviser.

Strictly, each short life asset should go into its own separate pool so that the allowances on it are calculated separately. This may not be practicable where assets are held in large numbers, for example crockery. In such cases calculations that give the correct statutory result, and do not abuse the short life assets provisions, will be accepted even if there is not a separate computation for each asset.

Example 5

Alice runs a restaurant and buys glasses to use in the business. She expects to use them in her business for three years and agrees with her HMRC office that the glasses have an actual life of three years. She spends £1,200 on wine glasses in the year ended 30 June 2010 and makes a short life assets election.

She can make a single capital allowance calculation for that expenditure of £1,200 and claim a balancing allowance for the year ended 30 June 2014 based on a disposal value of nil. None of the glasses bought in the year ended 30 June 2010 should still exist by then because they have an actual life of three years.

Long life assets

A long life asset is an asset whose expected working life when new is more than 25 years. Long life assets should be included in the special rate pool of 10%. If you work full-time in your business and the amount you spend on long life assets is less than £100,000, the reduced rate of writing down allowances does not apply and the expenditure goes into the 20% pool.

Assets leased out

You can claim capital allowances (but not first year allowances) for assets you own and lease out under a lease that is not a long funding lease to other users. A lease that began before 1 April 2008 cannot be a long funding lease.

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You should consult us or your tax adviser if you think a lease is a long funding lease. Claim capital allowances on these assets in the same way as for assets you use in your business. But first year allowances are not normally available on assets leased out apart from cars with very low CO_2 emissions (not exceeding 110g/km) and, in some cases, designated energy-saving or water efficient plant or machinery where it forms part of the energy or water supply for a building and is leased with the building to which it relates. If you think allowances may be due, discuss this with your tax adviser.

Disposals of equipment

If you sell or dispose of something that you have used in your business and claimed capital allowances for, the sale proceeds (or the market value if you gave it away or stopped using it in the business), is deducted from the pool. If there is nothing in the pool, or the disposal proceeds exceed the value in the pool, the amount deducted will give rise to a balancing charge.

If the sale proceeds and so on are more than the original cost of the asset, you should only deduct the original cost, unless you acquired the asset from a connected person. If you did, you should deduct the greater of the cost to them and your cost if both of them are less than the sale proceeds. Once these adjustments have been made, your writing down allowance is calculated. If the sale price is more than the value of the pool, the difference is a balancing charge and should be included in your taxable profits.

Example 6

Fred has a pool brought forward of nil for 2010-11, as all his previous expenditure was written off by claiming Annual Investment Allowance and Small Pools Allowance. He sells a lathe for £11,000. His capital allowance computation for 2010-11 is:

Value brought forward	£0
Minus	
Disposal proceeds	£11,000
Balancing charge	£11,000

Often you will be disposing of items and purchasing new items, which qualify for allowances, in the same year. The following example explains how to calculate your allowances.

Example 7

Jim has a plumbing business. For 2010-11 Jim brings forward a balance of £900 in his main pool of expenditure from the previous year. He spends £105,000 on two new vans and some new tools and sells his old van for £5,000. For 2010-11 Jim is entitled to claim both a £100,000 AIA and a £900 Small Pools Allowance, as follows:

Main pool balance carried forward	£900
Add	
New expenditure on van and tools	£105,000
Minus	
AIA for new expenditure	(£100,000)
Proceeds from sale	(£5,000)
Unrelieved balance	£900
Minus	
Small Pools Allowance	(£900)
Balance	Nil

Example 8

Thomas Telford is an engineer. He started working for himself on 6 April 2010 and decides to draw up his accounts to 5 April each year.

When he started he bought specialist machine tools for £90,000 and a test rig for £18,000. Then on 1 December 2010 he bought a van to use in the business for £36,000. The equipment and van together make a 'main pool' of cost or value. In 2010-11 the expenditure qualifies for AIA and any expenditure over that amount for a 20% writing down allowance. For 2011-12 the writing down allowance will be 20% on the remaining pool brought forward.

Thomas decides to close the business on 30 September 2012. He sells the equipment and van for £30,000. This is Thomas's capital allowance computation.

	Main pool	Allowance
Year ended 5 April 2011		
Cost of machine tools	£90,000	
Test rig	£18,000	
Van	£36,000	
Total expenditure	£144,000	
minus		
Annual Investment Allowance	£100,000	£100,000
Balance of pool	£44,000	
minus		
20% writing down allowance (£44,000 x 20%)	£8,800	£8,800
Total capital allowances		£108,800
Value to be carried forward to 2011-12	£35,200	
Year ended 5 April 2012		
Value brought forward	£35,200	
minus		
20% writing down allowance (£35,200 x 20%)	£7,040	£7,040
Total capital allowances		£7,040
Value to be carried forward to 2012-13	£28,160	
Period ended 30 September 2012		
Value brought forward	£28,160	
minus		
Disposal proceeds	(£30,000)	
Balancing charge (on 2012-13 return)	£1,840	

Capital allowances and cars

A car is a mechanically propelled road vehicle except where it is:

- constructed in such a way that it is primarily suited for transporting goods of any sort, or
- of a type which is not commonly used as a private vehicle and is not suitable for use as a private vehicle.

This means that vans and lorries are generally not cars, whereas a standard saloon or estate car is. Motor homes are also cars. However, certain cars that have been specially modified to be used as driving instructors' cars with additional pedals, are not treated as cars. From 6 April 2009 motorcycles

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are no longer treated as cars, but motorcycles purchased before that date continue to be treated as cars until you dispose of them, see below.

Cars bought on or after 6 April 2009

The rules for cars changed on 6 April 2009. If you bought a car on or after that date, the allowances you can claim are based on its CO_2 emissions, which are shown on the car's V5 certificate. Cars with CO_2 emissions:

- over 160g/km go into the special rate pool and qualify for writing down allowances at 10%
- of 160g/km or less go into the main pool and qualify for writing down allowances at 20%
- of 110g/km or less qualify for a 100% allowance but they must be new cars, not second-hand.

You can check a car's CO_2 emissions at **www.vcacarfueldata.org.uk/**

Example 9

Your accounts are drawn up for the year to 5 April 2011. You spent £20,000 on a car that you use 100% for your business. It has CO_2 emissions of 165g/km. The calculation is:

Cost of car	£20,000
Minus	
Writing down allowance (£20,000 x 10%)	£2,000
Value to carry forward	£18,000
The writing down allowance you can claim is	**£2,000**

Cars and motorcycles bought before 6 April 2009

If you purchased a car or motorcycle before 6 April 2009 the allowances you can claim are based on its cost. This means that if a car or motorcycle cost:

- no more than £12,000 – the cost or value went into the main pool and qualifies for writing down allowances at 20%
- more than £12,000 – it should continue to be pooled in a single asset pool and qualifies for writing down allowances at 20% which are then restricted to £3,000 per year.

Example 10

Your accounts are drawn up for the year to 5 April. You spent £16,000 on a car before 6 April 2009. The calculation is:

2009–10	
Cost of car	£16,000
Minus	
Writing down allowance (£16,000 x 20%) but restricted to	£3,000
Value to carry forward	£13,000
The writing down allowance you can claim is	£3,000
2010–11	
Balance carried forward	£13,000
Minus	
Writing down allowance (£13,000 x 20%)	£2,600
(As the allowance is less than £3,000, the full amount can be claimed)	
Value to carry forward	£13,000
The writing down allowance you can claim is	**£2,600**

These rules continue for a transitional period of five years ending on the last day of the first chargeable period to end on or after 5 April 2014. After this date the balance is moved into the main rate pool.

Where cars are used partly for private purposes the rules are slightly different, these are explained below.

Cars used for private purposes

As with any other piece of equipment, cars which are used partly for private purposes should not be included in a general pool. Instead the expenditure is put into a single asset pool and allowances on each car used for both business and private use should be worked out separately.

Example 11

Jeff bought a car for £20,000 on 1 May 2010, it has CO_2 emissions of 150g/km and is used for 50% private purposes. The calculation is:

Cost of a car	£20,000
Minus	
Writing down allowance (£20,000 x 20%)	£4,000
Value to carry forward	£16,000
Writing down allowance you can claim is (£4,000 x 50% business use)	**£2,000**

Where the car was purchased before 6 April 2009 the allowance that can be claimed is subject to the pre-6 April 2009 rules (see page 9).

Example 12

Your accounts are drawn up to 30 September. You bought a car for £8,000 in 2008-09 and sell it for £4,400 in 2009-10. You use it 50% for business. The calculation is:

Year 2008–09	
Cost of a car	£8,000
Minus	
Writing down allowance (£8,000 x 20%)	£1,600
Value to carry forward	£6,400
The writing down allowance you can claim is (£1,600 x 50%)	**£800**
Year 2009–10	
Value brought forward	£6,400
Writing down allowance (£6,400 x 20%)	£1,280
Value to carry forward	£5,120
The writing down allowance you can claim is (£1,280 x 50%)	**£640**
Year 2010–11	
Value brought forward	£5,120
Minus	
Sale price	£4,400
Difference	£720
The balancing allowance you can claim is (£720 x 50%)	**£360**

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Special rules for non-tax year accounting periods

Accounting periods that do not correspond with the tax year

If your accounting period does not correspond with the tax year of 6 April to 5 April, for example, if it runs from 1 September to 31 August, or perhaps is shorter or longer than 12 months, for example, 1 September 2009 to 28 February 2011, the capital allowances you are entitled to are calculated differently. For example:

- the £100,000 AIA limit applies only to expenditure incurred on or after 6 April 2010; prior to that date it was £50,000. Where your accounting period started before this date this will need to be reflected in the amount of AIA you can claim, as there is a cap on the amount of pre-6 April 2010 expenditure you can claim as AIA
- if your accounting period is longer or shorter than a year, your AIA may be proportionately increased or reduced
- for expenditure made prior to April 2010, a special first year allowance allowed all businesses to claim 40% allowances on their initial investments in equipment and machinery, excluding cars, long life assets or leased machinery.

For more information, see the Capital Allowances Manual **www.hmrc.gov.uk/manuals/camanual/index.htm**

Example 13

You draw up business accounts for the 12 month period to 31 December 2010. During that period your business incurred expenditure qualifying for capital allowances (capital expenditure) of £150,000 of which £85,000 was incurred before 6 April 2010 and £65,000 was incurred afterwards.

Because these accounts span the date the limit for AIA changed, they are subject to special rules. Additionally because you have the choice as to how to allocate your allowances, you can get a number of different results. This particular example demonstrates how to calculate the optimum capital allowances.

Step 1

Break your period of account into the periods before and after 6 April 2010. You can use the number of months or days. For simplicity, this example uses months. For this particular calculation, HMRC will accept the periods to 5 April as 3 months and from 6 April as 9 months

1 January to 5 April 2010	3 months
6 April to 31 December 2010	9 months

Step 2

Calculate your Annual Investment Allowance entitlement. Because the limit for AIA was increased from £50,000 to £100,000 from 6 April 2010, a transitional amount will need to be calculated as follows:

1 January to 5 April 2010 (3/12 x £50,000)	£12,500
6 April to 31 December 2010 (9/12 x £100,000)	£75,000
Maximum AIA for period 1 January to 31 December 2010	£87,500

However, there is a cap on the amount of expenditure incurred before 6 April 2010 that qualifies for AIA, and only a maximum of £50,000 of your expenditure incurred during that period would be eligible for AIA.

Step 3

Determine when the capital expenditure was incurred, because expenditure incurred before 6 April 2010 will, where appropriate, qualify for the temporary first year allowance of 40%.

Capital expenditure for period 1 January to 5 April 2010	£85,000
Capital expenditure for period 6 April to 31 December 2010	£65,000
	£150,000

Step 4

Work out how much you claim for capital allowances:

AIA		
AIA for 1 January to 5 April 2010	£22,500	
(Calculated as max AIA due (£87,500) less expenditure for period from 6 April to 31 December 2010 £65,000)		
Plus AIA from 6 April to 31 December	£65,000	
Total AIA (£22,500 + £65,000)		£87,500
Temporary first year allowance to 5 April 2010		
Qualifying expenditure for FYA (£85,000 *minus* £22,500 AIA)	£62,500	
FYA (£62,500 x 40%)		£25,000
(Balance carried forward to next year (£150,000 *minus* £112,500)	£37,500)	
Total capital allowances claim (£87,500 + £25,000)		£112,500

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Accounting periods which are less than year

If your accounting period is less than a calendar year the amount of AIA and writing down allowance you can claim is reduced accordingly. This also applies to Small Pools Allowance.

Example 14

Annual Investment Allowance

Your period of account is 1 October 2010 to 5 April 2011 (187 days).

The maximum **Annual Investment Allowance** is restricted to 187/365 x £100,000	£51,233

Example 15

Writing down allowance

Your period of account is 1 October 2010 to 5 April 2011 (187 days). For qualifying expenditure of £2,000, the **writing down allowance** is restricted as follows:

Writing down allowance (£2,000 x 20%)	£400
Restricted for 187 day period (187/365 x £400)	£204.94
The writing down allowance you can claim is	£205

This does **not** apply to first year allowances. In such cases the full first year allowance is claimed, and is not proportionately reduced or increased.

Accounting periods which are longer than a year but less than 18 months

If your accounting period is more than a calendar year but less than 18 months, maximum AIA and writing down allowance you can claim is increased accordingly. This does not apply to first year allowances. In such cases the full allowance is claimed, it is not proportionately increased.

Example 16

Your period of account is 1 May 2010 to 31 August 2011 (16 months).

The maximum Annual Investment Allowance would be 16/12 x £100,000 = £133,334 (rounded to the nearest pound).

However, if your accounting period started before 6 April 2010 you need to take into account that:

- AIA was increased from £50,000 to £100,000 and there is a cap on the amount of expenditure incurred before 6 April that qualifies for AIA
- a 40% first year allowance was available for expenditure incurred between the period 6 April 2009 to 5 April 2010.

This can be demonstrated in the following example.

Example 17

Your period of account is 1 September 2009 to 31 December 2010 (16 months). You brought forward a pool of £30,000 and spent £120,000 on equipment, £95,000 of which was before 6 April 2010. All figures are rounded up.

Step 1

Break your period of account into the periods before and after 6 April 2010. These are as follows:

1 September 2009 to 5 April 2010	7 months
6 April 2010 to 31 December 2010	9 months

(You may use days if you wish)

Step 2

Work out your Annual Investment Allowance entitlement. The calculation is:

1 September 2009 to 5 April 2010 (7/12 x £50,000)	£29,167
6 April 2010 to 31 December 2010 (9/12 x £100,000)	£75,000
Maximum AIA for period	£104,167

However, there is a cap on the amount of expenditure that qualifies for AIA where it was incurred before 6 April 2010. This is calculated as follows:

£50,000 x 16/12	£66,667

Step 3

Determine when the capital expenditure was incurred, because qualifying expenditure incurred before 6 April 2010 will, where appropriate, qualify for the temporary first year allowance of 40%.

Capital expenditure for period 1 September 2009 to 5 April 2010	£95,000
Capital expenditure for period 6 April 2010 to 31 December 2010	£25,000
	£120,000

Step 4

Work out how much you claim for capital allowances:

AIA		
1 September 2009 to 5 April 2010		
(£95,000 but restricted because of cap - see Step 2)	£66,667	
6 April 2010 to 31 December 2010	£25,000	
Total AIA		£91,667

This leaves a balance of £28,333 (95,000 *minus* 66,667) which was incurred before 6 April 2010 and qualifies for 40% FYA.

Temporary first year allowance to 5 April 2010		
Qualifying expenditure 1 September 2009 to 5 April 2010	£28,333	
FYA due (£28,333 x 40%)		£11,334
Balance carried forward to next year	£16,999	
Writing down allowance		
Balance brought forward from 2009-10	£30,000	
WDA for a 12 months would be £6,000 (£30,000 x 20%) but WDA due for 16 month period is (£6,000 x 16/12)		£8,000
Balance carried forward to next year	£22,000	
Total capital allowances claim		**£111,001**
Total balance carried forward (£16,999 + £22,000)	£38,999	

Contacts

Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

The same rules apply to Small Pools Allowance (SPA), which should be proportionately increased if your period of account is longer than 12 months.

Example 18

Your period of account is 1 April 2010 to 31 August 2011 (17 months). The maximum Small Pools Allowance would be 17/12 x £1,000 = £1,417 (rounded up to the nearest pound).

Accounting periods longer than 18 months

If your accounting period is longer than 18 months you should split it into shorter periods and make separate capital allowance calculations for each of them.

The first 12 months will form a period and each subsequent 12 month period, or period of less than 12 months, will form further periods. For example, if the period of account is the 20 months from 1 January 2009 to 31 August 2010 you should split it into 12 months to 31 December 2009 and 8 months to 31 August 2010 and apply the rules above.

Gaps and overlapping accounting periods

If there is a gap between two periods of account you should add it to the first period of account. For example, if accounts are drawn up for the year to 31 December 2009 and the period 1 April 2010 to 31 December 2010, you should add the period from 1 January 2010 to 31 March 2010 to the year ended 31 December 2009.

If there is an overlap between two periods of account, treat the overlap period as part of the first period of account only. For example, if accounts are drawn up for the 15 months to 31 March 2010 and for the year ended 31 December 2010, treat the period 1 January 2010 to 31 March 2010 as being part of the 15 months to 31 March 2010 only.

Commencing your business

If you started in business between 6 April 2010 and 5 April 2011, your Annual Investment Allowance and writing down allowances are calculated for the period of accounts which starts on the date that your business began.

Example 19

Bob started business on 1 December 2010. He draws up his accounts to 5 April 2011 (126 days). On 1 January 2011 he buys a van for £44,000. He buys no other business assets. His capital allowance computation for the period of account ended 5 April 2011 is:

Cost of van	£44,000
Minus	
Annual Investment Allowance (126/365 x £100,000)	£34,521
	£9,479
Writing down allowance £9,479 x 20%	£1,896
Restricted for 126 days (£1,896 x 126/365)	£655
Total capital allowances (£34,521 + £655)	£35,176
Value to carry forward to 2011-12 (£9,479 *minus* £655)	£8,824

Ceasing your business

If your business ceases you should deduct from the value of the pool the sale proceeds for any items you sell, or deduct their market value if you keep them. This includes items that were eligible for 100% allowances. If these are more than the value of the pool, the difference is a balancing charge. If there is any value remaining in the pool, do not work out writing down allowance but claim the value remaining as a balancing allowance instead.

The example below shows how this is done. If you sell any items for more than you paid for them, or their value if you keep them is more than you paid for them, you should deduct only the amount you paid for those items from the pool, and not the sale proceeds or value. However, if you acquired the item from a connected person, you should deduct the greater of the cost to them and your cost if both are less than the sale proceeds.

Example 20

Jackson has been in business for many years. He draws up his accounts to 5 April each year. At 5 April 2010 the value in the pool is £10,000. He stops trading on 1 July 2010. He keeps a word processor with a market value at 1 July 2010 of £2,000. He sells the other business assets for £7,000. His capital allowance computation for 2010-11 is:

Value brought forward	£10,000
Minus	
Disposal proceeds (£7,000 + £2,000)	£9,000
Balancing allowance	£1,000

Partnerships

The partnership can claim capital allowances on assets owned by the partnership. It can also claim capital allowances on plant and machinery owned by one of the partners but which is used in the partnership's business.

Example 21

Lily, Rosemary and Jack are in partnership. They run a casino and use a roulette wheel that belongs to Jack in the casino but do not make any payment to Jack for using it.

The partnership of Lily, Rosemary and Jack can claim capital allowances on the roulette wheel.

Mixed partnerships, for example, made up of individuals and companies, are not able to claim Annual Investment Allowance.

Capital allowances for employees

I am an employee, can I claim capital allowances?

Capital allowances will normally be available on the cost to you of equipment it is necessary for you to provide in carrying out your duties as an employee, because your employer does not provide the equipment. Typical examples are office equipment, such as desks and filing cabinets, or tools. Generally, anything you use in your work that has a useful life of at least two years may qualify for an allowance. There are also special rules that apply to equipment with an expected life of between two and five years. These are explained on page 6 under the heading 'Short life assets'.

Assets and equipment are regarded as 'necessary' if you could not do your job without them. They must be things that each and every person doing your job would have to provide.

Motor vehicles and bicycles

You cannot claim capital allowances for a car, van, lorry, motorcycle or bicycle that you provide. But if you use your own vehicle for work and your employer has not paid you for business mileage, or has paid you less than the maximum tax free amount, you can claim a deduction for mileage allowance expenses. Include this in box 17 on the *Employment* page, (see the notes for box 17 on pages EN 6 and EN 7 of the *Employment notes*).

Do I have to claim allowances for inexpensive items of equipment?

Instead of claiming capital allowances, you may be able to claim an expenses deduction for the full cost of some items in the year they are acquired.

This applies if:
- the cost of the item is small, and
- the item replaces one on which capital allowances have not been claimed.

Examples of the sort of items that can be dealt with in this way are small tools, such as electric drills, or protective clothing such as safety boots or helmets. For further information, ask us or your tax adviser.

Example 22

You have spent £120,000 on general equipment and the total expenditure is pooled. You can claim £100,000 of this as an Annual Investment Allowance (AIA). The balance of £20,000 qualifies for a 20% writing down allowance, which is £4,000. The amount remaining in the pool after deducting the WDA (£16,000) should then be carried forward to the next year.

Example 23

John has been an employee for two years. For 2010-11 he spent £1,500 on equipment, and brought forward a pool of £700 from 2009-10. He can claim:
- the full £1,500 as an Annual Investment Allowance, and
- the £700 pool brought forward as a Small Pools Allowance.

Paul has been an employee for three years. For 2010-11 he spent £100,500 on equipment. He can claim:
- the full £100,000 as AIA, and
- because the remaining £500 is pooled and it is less than £1,000, he can claim £500 as a Small Pools Allowance.

What if I receive a subsidy from my employer?

If you receive a payment from your employer to cover depreciation of the asset you use, this will reduce your entitlement to AIA and writing down allowance. Expenditure on the asset must also be put into a single asset pool.

Example 24

Ginger is an employee who works from home. She purchases a computer, printer and fax machine for £3,000 to use wholly for the purposes of her work. Her employer pays her a partial depreciation subsidy of £1,000 to cover part of the depreciation of these assets. Ginger claims an AIA on her expenditure of £3,000, but this **must** be reduced to £2,000 to reflect the partial depreciation subsidy.

Where the subsidy is paid over a period of years, the allowance you claim each year should be restricted by a just and reasonable amount to reflect the amount of depreciation your employer is prepared to subsidise.

What happens if I started my employment during the year?

If you have not been an employee for a full year, or stopped being an employee during the year, your AIA and WDA, if required, must be apportioned on a time basis and reduced accordingly.

> **Example 25**
>
> Jane became an employee on 30 August 2010. This means that she was an employee for 219 days during 2010-11. She can claim up to 219/365 of the £100,000 AIA.

If you have used up your AIA, you are entitled to the appropriate WDA but this should also be proportionately reduced.

Other capital allowances

Business Premises Renovation Allowance

The BPRA scheme took effect from 11 April 2007 and applies for a period of five years up to 10 April 2012, to conversion, renovation or repairs to unused business premises which brings them back into business use. You are entitled to claim a 100% allowance against the costs incurred, subject to the following rules.

To qualify for BPRA, the premises must:
- not have been used for any trading or other business activity, or as offices, for at least one year before the works began
- be in an Assisted Area, that is, an area which is considered to be disadvantaged and eligible for regional aid. The whole of Northern Ireland qualifies as an Assisted Area and to see whether an area in England, Wales and Scotland qualifies go to **www.dtistats.net/regional-aa/aa2007.asp**
- be available for business or commercial use after the works are complete (but not for farming, fisheries, aquaculture, the manufacture of substitute milk products or synthetic fibres, shipbuilding, steel or coal industries).

BPRA cannot be claimed:
- if the renovation expenditure has been incurred on any residential property, or
- on the costs of acquiring the land, extending the business premises, or
- developing land next to the business premises.

For further information about BPRA and the conditions you must satisfy to claim the allowance, go to
www.hmrc.gov.uk/manuals/camanual/ca45000.htm

Flat Conversion Allowance

Flat Conversion Allowance (FCA) is a 100% allowance designed to encourage the conversion of empty or underused space above shops and other commercial premises to residential use. The scheme is sometimes referred to as Flats Over The Shop (FOTS).

More information about the allowance can be found in the Flat Conversion Allowance section of the Capital Allowances Manual. Go to
www.hmrc.gov.uk/manuals/camanual/ca43000.htm

In summary, in order to qualify for the allowance the flats must be available for short-term letting. The property in which the flats are situated must have been built before 1980. Conversion or renovation works in an extension to a property built before 1980 that are completed by 31 December 2000 can also qualify for FCA.

Allowances are not available if the flats that are created have rental rates that exceed the following values:

Number of rooms in flat	Flats in Greater London	Flats elsewhere
1 or 2 rooms	£350 per week	£150 per week
3 rooms	£425 per week	£225 per week
4 rooms	£480 per week	£300 per week

The property must not have more than four storeys above the ground floor. An attic counts towards this total if it can be lived in.

Entering capital allowances on your return

Capital allowances can be claimed by completing the relevant capital allowances boxes on your return. The boxes to be completed will vary depending on the type of return and/or supplementary page. There may be a specific box for a particular type of allowance, or several allowances have to be included in one box, or all the allowances may have to be included in a total capital allowances box.

If one box is to be used for more than one type of allowance, you should add all the different allowances together and enter the total in the relevant box.

Where there is just one capital allowances box, all the different types of allowances claimed should be added together and the total entered in the box. On some forms the Small Pools Allowance should be claimed in one of two boxes depending on which pool is being written off.

The table starting on page 19 will help you find the right box for the type of allowance you want to claim where there is more than one capital allowances box on the return.

Type of allowance	Return	Supplementary page/section	Box number
Annual Investment Allowance (AIA)	Individual main tax return	Self-employment (short)	22
		Self-employment (full)	48
		UK property (not FHL)	30
	Partnership Tax Return	Trading & professional income	3.13A
		UK property (not FHL)	1.33A
	Non-resident company liable to Income Tax	Furnished holiday lettings	2.18
		Other property income	2.51
Writing down allowance (WDA) at 20%	Individual main tax return	Self-employment (short)	24
		Self-employment (full)	49
		UK property (not FHL)	32
	Partnership Tax Return	Trading & professional income	3.14A
		UK property (not FHL)	1.34
	Trust & Estate Tax Return	Trade	1.14
		UK Property (not FHL)	3.35
		UK Property (FHL)	3.13
	Non-resident company liable to Income Tax	Furnished holiday lettings	2.18
		Other property income	2.53
Small Pools Allowance	Individual main tax return	Self-employment (short)	23
		Self-employment (full)	49 or 50
		UK property (not FHL)	32
	Partnership Tax Return	Trading & professional income	3.14A or 3.16
		UK property (not FHL)	1.34
	Trust & Estate Tax Return	Trade	1.14
	Non-resident company liable to Income Tax	Furnished holiday lettings	2.18 or 2.20
		Other property income	2.53 or 2.55
Allowances at 10%	Individual main tax return	Self-employment (short)	24
		Self-employment (full)	50
		UK property (not FHL)	32
	Partnership Tax Return	Trading & professional income	3.16
		UK property (not FHL)	1.34
	Trust & Estate Tax Return	Trade	1.16
		UK Property (not FHL)	3.35
	Non-resident company liable to Income Tax	Furnished holiday lettings	2.20
		Other property income	2.55

Type of allowance	Return	Supplementary page/section	Box number
First year allowance (FYA) at £40%	Individual main tax return	Self-employment (short) Self-employment (full) UK property (not FHL)	24 54 32
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.20 1.34
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.18 2.61
Allowances at 100% (that are not AIA or FYA)	Individual main tax return	Self-employment (short) Self-employment (full) UK property (not FHL)	24 54 32
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.20 1.34
	Trust & Estate Tax Return	Trade UK property (not FHL)	1.20 3.35/3.35A/21.9
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.18 2.61
Restricted allowances for cars costing more than £12,000	Individual main tax return	Self-employment (short) Self-employment (full) UK property (not FHL)	24 51 32
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.14 1.34
	Trust & Estate Tax Return	Trade	1.14
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.18 2.61
Other allowances	Individual main tax return	Self-employment (short) Self-employment (full) UK property (not FHL)	24 54 32
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.20 1.34
	Trust & Estate Tax Return	Trade UK property	1.20 3.35
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.18 2.61