Capital allowances and balancing charges

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**

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.

Generally, anything you use that has a useful economic life of at least two years may qualify for capital allowances.

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 buildings, land and some intangibles such as trade marks and goodwill. You can claim capital allowances for the following items:
- plant and machinery
- 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 more 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.*

Not all allowances are available to everyone. For example, trusts and mixed partnerships are not 'qualifying persons' for the purposes of Annual

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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. You can find more detailed guidance about these and the other allowances in the Capital Allowances Manual available at
www.hmrc.gov.uk/manuals/camanual/index.htm

This helpsheet has been written on the basis that you have a 'standard' accounting period of 6 April 2011 to 5 April 2012. If your accounting period is different, or longer or shorter than 12 months, then read the notes on pages 12 to 16.

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 2011 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 per cent 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 per cent 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 per cent WDA and 10 per cent 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 per cent 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 the 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. (From 6 April 2012 this amount will be reduced to £25,000.) Add the cost of all the equipment together and, if the total cost is £100,000 or less, you can claim 100 per cent 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. AIA is not available to trustees or to partnerships unless all the members are individuals.

Writing down allowances

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 9 to 11), 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 per cent 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. (From 6 April 2012 the rate of writing down allowances of the main pool will be reduced to 18 per cent). This is illustrated in more detail in Example 8.

Special rate expenditure

Certain items of equipment qualify for special rate allowances at 10 per cent 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 7).

You may use your £100,000 AIA wholly or partly against this expenditure, in preference to expenditure that qualifies at the 20 per cent 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 per cent.

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

(From 6 April 2012 the rate of writing down allowances of the special rate pool will be reduced to 8 per cent).

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Small pools of £1,000 or less

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 per cent writing down allowances or 10 per cent 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 2011-12. 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 2010-11. He can claim the full £1,500 as AIA and the £700 pool brought forward as Small Pools Allowance.

100 per cent first year allowances

You can claim 100 per cent 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 Annual Investment Allowance (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 AIA 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 10) and is used 60 per cent for business and 40 per cent for private use, the cost or value would go into a separate pool.

The 20 per cent writing down allowances of £2,400 (£12,000 x 20 per cent) would be reduced to 60 per cent of that amount, that is to £1,440 (£2,400 x 60 per cent).

Short life assets

The short life asset (SLA) rules lets you write off the cost of an asset over its life in your business. This is done by putting the expenditure in a single asset pool and having a balancing adjustment when the asset is disposed of scrapped. An asset is only a short life asset if you elect to treat it as one. The actual or expected life of the asset is irrelevant in deciding whether or not it qualifies for SLA treatment. All that matters is that an election is made and that it is not specifically excluded.

Some assets are excluded from SLA treatment (for example cars, assets used partly for non-business use and 'special rate items'). A full list of things that cannot be SLAs can be found in the Capital Allowances Manual (CA23620).

If you decide to use this treatment you must let us know in writing 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 2011, you must make the election by 31 January 2014. You cannot withdraw an election once it has been made.

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 a restaurant. In such cases calculations that give the correct statutory result, and do not abuse the short life asset provisions, will be accepted even if there is not a separate computation for each asset.

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 actual cost to the business (For instance, purchase price minus disposal proceeds).

Expenditure on an SLA goes into a single asset pool. No other expenditure goes in that pool. If there has not been a final chargeable period by the cut-off time in the rules, the expenditure in the SLA pool is transferred to the main pool.

For expenditure incurred before 6 April 2011 there was a four year cut-off. The four year cut-off is the fourth anniversary of the end of the chargeable period in which the qualifying expenditure on the asset was incurred.
For expenditure incurred on or after 6 April 2011 there is an eight year cut-off. The eight year cut-off is the eighth anniversary of the end of the chargeable period in which the asset was incurred.

Example 5

Alice runs a restaurant and her financial year ends on 30 June 2011. On 1 May 2011 she spends £10,000 on cutlery to use in the business. She wishes to make a short asset election. She must tell HMRC of her decision to use the election by 31 January 2014. She adds all of the expenditure of £10,000 into one single asset pool.

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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 (WDA rate 10 per cent). 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 main pool (WDA rate 20 per cent).

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. You should ask 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). In some cases first year allowances are available for 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 (or value, if appropriate) are more than the original cost of the asset, you should only deduct the original cost, unless you get 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 2011-12, 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 2011-12 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 2011-12 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 2011-12 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

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Example 8

Thomas Telford is an engineer. He started working for himself on 6 April 2011 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 2011 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 2011-12 the expenditure qualifies for AIA and any expenditure over that amount for a 20% writing down allowances. For 2012-13 the writing down allowances will be 18% on the remaining pool brought forward.

Thomas decides to close the business on 30 September 2013. He sells the equipment and van for £30,000. This is Thomas's capital allowance computation.

	Main pool	Allowance
Year ended 5 April 2012		
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 2012-13	£35,200	
Year ended 5 April 2013		
Value brought forward	£35,200	
Minus		
18% writing down allowance (£35,200 x 18%)	£6,336	£6,336
Total capital allowances		£6,336
Value to be carried forward to 2013-14	£28,864	
Period ended 30 September 2013		
Value brought forward	£28,864	
Minus		
Disposal proceeds	(£30,000)	
Balancing charge (on 2013-14 return)	£1,136	

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 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 per cent (8 per cent from 6 April 2012)
- of 160g/km or less go into the main pool and qualify for writing down allowances at 20 per cent (18 per cent from 6 April 2012)
- of 110g/km or less qualify for a 100 per cent 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 2012. 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 allowances (£20,000 x 10%)	£2,000
Value to carry forward	£18,000
The writing down allowances 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 per cent (18 per cent from 6 April 2012)
- more than £12,000 – it should continue to be pooled in a single asset pool and qualifies for writing down allowances at 20 per cent (18 per cent from 6 April 2012) 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:

2010–11	
Cost of car	£16,000
Minus	
Writing down allowances (£16,000 x 20%) but restricted to	£3,000
Value to carry forward	£13,000
The writing down allowances you can claim is	£3,000
2011–12	
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**

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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 2015. 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. 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 10).

Example 11

Jeff bought a car for £20,000 on 1 May 2011, 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 allowances (£20,000 x 20%)	£4,000
Value to carry forward	£16,000
Writing down allowances you can claim are (£4,000 x 50% business use)	**£2,000**

Example 12

Your accounts are drawn up to 30 September. You bought a car for £8,000 in 2009-10 and sell it for £4,400 in 2010-11. You use it 50% for business. The calculation is:

Year 2009–10	
Cost of a car	£8,000
Minus	
Writing down allowances (£8,000 x 20%)	£1,600
Value to carry forward	£6,400
The writing down allowances you can claim are (£1,600 x 50%)	**£800**
Year 2010–11	
Value brought forward	£6,400
Writing down allowances (£6,400 x 20%)	£1,280
Value to carry forward	£5,120
The writing down allowances you can claim are (£1,280 x 50%)	**£640**
Year 2011–12	
Value brought forward	£5,120
Minus	
Sale price	£4,400
Difference	£720
The balancing allowance you can claim is (£720 x 50%)	**£360**

Special rules for non-tax year accounting periods

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 2010 to 28 February 2012, the capital allowances you are entitled to may have to be calculated differently. You can find more information in the Capital Allowances Manual at **www.hmrc.gov.uk/manuals/camanual/index.htm**

12 month Accounting periods that do not correspond with the tax year

If your 12 month accounting period falls 6 April 2010 and 5 April 2012, then you are eligible to claim the full AIA of £100,000 and writing down allowances of 20 per cent or 10 per cent. However, from 6 April 2012 the AIA limit will be reduced to £25,000. This means that where your accounting period starts before but ends after this date, special rules apply to calculate the amount of AIA expenditure that can be claimed.These rules provide that where a business has a chargeable period that spans the relevant date of the reduction, the maximum allowance for that business's transitional chargeable period is the sum of:

- the maximum AIA entitlement based on the previous £100,000 annual cap for the portion of a year falling before the relevant operative date, and
- the maximum AIA entitlement, based on the new £25,000 cap for the portion of a year falling on or after the relevant date.

An additional rule provides that any expenditure incurred after 6 April 2012 is capped to that amount of the AIA that relates to the period after 6 April 2012.

Example 13

Ryan draws up his accounts for the period 1 January 2012 to 31 December 2012.
His maximum AIA entitlement is based on:

- the proportion of a year from 1 January 2012 to 31 March 2012, that is 3/12 x £100,000 = £25,000, and
- the proportion of a year from 1 April 2012 to 31 December 2012, that is 270/366 x £25,000 = £18,750
- his maximum AIA for this particular transitional chargeable period would therefore be the total of (a) + (b) = £25,000 + £18,750 = £43,750
  However, should Ryan only incur expenditure after 6 April, his maximum AIA is capped at £18,750.

Special rules also apply for writing down allowances as the 20 per cent rate will be reduced to 18 per cent and the 10 per cent rate to 8 per cent from 6 April 2012. For periods of account that straddle the date of change a transitional rate must be applied.

Example 14

Barry draws up his accounts for the period 1 January 2012 to 31 December 2012. He has no new expenditure but has carried forward £20,000 in his main pool. Because of the change in writing down allowances he must apply a hybrid rate for 2012–13 only. This is calculated as follows (Please note that the apportionment) **must** be made in days:
There are 336 days in 2012. The hybrid rate will be:
(96/366 days before 6 April 2012 x 20% = 5.25%) + [270/366 days on and after 6 April 2012 = 13.28%] = 18.53%
Barry's maximum writing down allowances are £20, 000 x 18.53% = £3,706

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Example 15

You draw up your accounts for the period 1 January 2012 to 31 December 2012. You have incurred £75,000 on new equipment of which £25,000 was incurred before 6 April 2012 and £50,000 after. There is also a main pool brought forward of £30,000. This is the capital allowances calculation.

Step 1

Break your period of account into the periods before and after 6 April 2012. These are as follows:

1 January 2012 to 31 March 2012	3 months
1 April 2012 to 31 December 2012	9 months

Step 2

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

1 January 2012 to 31 March 2012 (3/12 x £100,000)	£25,000
1 April 2012 to 31 December 2012 (9/12 x £25,000)	£18,750
Maximum AIA for the period	£43,750

However, there is a cap on the amount of expenditure that qualifies for AIA where it was incurred before 6 April 2010. This is restricted to £18,750.

Work out hybrid rate of writing down allowances:

(96/366 days before April 2012 x 20% = 5.25%) + [270/366 days on and after 6 April 2012 = 13.28%] = 18.53%. Total hybrid rate = 18.53%.

Step 3

Determine when the capital expenditure incurred

1 January 2012 to 5 April 2012 = £25,000

6 April 2012 to 31 December 2012 = £50,000

Step 4

To work out the capital allowances

AIA

1 January 2012 to 5 April 2012 = £25,000
5 April 2012 to 31 December 2012 = £18,443 (this is the maximum AIA that can be claimed for this period)

Total AIA £25,000 + £18,443 = £43,443

Writing down allowance

Balance brought forward from 2011	£30,000
Remaining expenditure for 2012 (£75,000 minus £43,443 AIA)	£31,557
Total	£61,557
£61,557x18.53% (hybrid rate)	£11,406
Balance carried forward	£50,151
Total capital allowances claim (£43,443 AIA + £11,406 (WDA))	£54,849

Accounting periods which are less than a year

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

Example 16 Annual Investment Allowance

Your period of account is 1 October 2011 to 5 April 2012 (187 days).

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

Example 17 Writing down allowances

Your period of account is 1 October 2011 to 5 April 2012 (187 days). For qualifying expenditure of £2,000, the **writing down allowances** are restricted as follows:

Writing down allowances (£2,000 x 20%)	£400.00
Restricted for 187 day period (187/365 x £400)	£204.94
The writing down allowances you can claim are	£205.00

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, the maximum AIA and writing down allowances 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 18

Your period of account is 1 December 2010 to 31 March 2012 (15 months).

The maximum Annual Investment Allowance would be 15/12 x £100,000 = £125,000 (rounded to the nearest pound).

However, if your accounting period end on or after 6 April 2012 you need to take into account that:

- AIA will be reduced from £100,000 to £25,000 and there is a cap on the amount of expenditure incurred before 6 April 2012 that qualifies for AIA
- writing down allowances will be reduced from 20 per cent to 18 per cent and 10 per cent to 8 per cent respectively, and a hybrid rate must be applied.

ℹ 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**

Example 19

Your period of account is 1 March 2011 to 31 June 2012 (16 months or 488 days). You brought forward a pool of £30,000 and spent £120,000 on equipment, £95,000 of which was after 6 April 2012. All figures are rounded up.

Step 1

(For AIA you can choose to use days or months to apportion the period).

Break your period of account into the periods before and after 6 April 2012. These are as follows:

1 March 2011 to 5 April 2012	402 days
6 April 2012 to 30 June 2012	86 days
Total	488 days

Step 2

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

1 March 2011 to 5 April 2012 (402/366 x £100,000)	£109,836
6 April 2012 to 30 June 2012 (86/365 x £25,000)	£5,890
Maximum AIA for the period	£115,726

However, there is a cap on the amount of expenditure that qualifies for AIA where it was incurred after 6 April 2010. This is restricted to £5,890

Step 3

Work out the hybrid rate of writing down allowances. (You must use days in this calculation.) (402/366 days before 6 April 2012 x 20% = 21.97%) + (86/366 days on and after 6 April 2012 x 18% = 4.23%) = 26.2%

Total hybrid rate = 26.23%

Step 4

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 March 2011to 5 April 2012	£25,000
Capital expenditure for period 6 April 2012 to 30 June 2010	£95,000
Total	£120,000

Step 5

Work out how much you claim for capital allowances:

AIA

1 March 2011 to 5 April 2012	£25,000
6 April 2012 to 30 June 2012 (restricted because of cap see step)	£5,890
Total AIA	£30,890

This leaves a balance of £89,110 (120,000 *minus* 30,890 AIA).

Writing down allowance

Unrelieved expenditure for 1 March 2011 to 30 June 2012	£89,110
Balance brought forward from 2010-11	£30,000
Total	£119,110
WDA due for month period is (£119,110 x 26.3%)	£31,246
Balance carried forward to next year (£119,110 minus £31,246)	£87,864
Total capital allowances claim (£30,890 AIA + £31,246 WDA)	**£62,136**

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

Example 20

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.

Starting 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 21

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 computations 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 allowances £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 allowances 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 only deduct 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 22

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 23

Lily, Rosemary and Jack are in partnership. They run a casino and use a roulette in the casino wheel that belongs to Jack 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 more information, ask us or your tax adviser.

Example 24

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 20% writing down allowances (WDA), 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 25

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 Allowances, 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 allowances. Expenditure on the asset must also be put into a single asset pool.

Example 26

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 needed, must be apportioned on a time basis and reduced accordingly.

Example 27

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 x £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 to 10 April 2017 to conversion, renovation or repairs to unused business premises which brings them back into business use.
You are entitled to claim a 100 per cent 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.bis.gov.uk/analysis/statistics/sub-national-statistics/assisted-area-look-up**
- 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.

You can find more information about BPRA and the conditions that 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 per cent 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).

You can find more information about the allowance 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 of 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 21 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) Self-employment (full) UK property (not FHL)	22 48 30
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.13A 1.33A
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.18 2.51
Writing down allowance (WDA) at 20%	Individual main tax return	Self-employment (short) Self-employment (full) UK property (not FHL)	24 49 32
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.14A 1.34
	Trust & Estate Tax Return	Trade UK Property (not FHL) UK Property (FHL)	1.14 3.35 3.13
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.18 2.53
Small Pools Allowance (SPA)	Individual main tax return	Self-employment (short) Self-employment (full) UK property (not FHL)	23 49 or 50 32
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.14A or 3.16 1.34
	Trust & Estate Tax Return	Trade	1.14
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.18 or 2.20 2.53 or 2.55
Allowances at 10%	Individual main tax return	Self-employment (short) Self-employment (full) UK property (not FHL)	24 50 32
	Partnership Tax Return	Trading & professional income UK property (not FHL)	3.16 1.34
	Trust & Estate Tax Return	Trade UK Property (not FHL)	1.16 3.35
	Non-resident company liable to Income Tax	Furnished holiday lettings Other property income	2.20 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