

Super Deduction

- For expenditure incurred from 1st April 2021 until the end of March 2023 companies are able to claim 130% capital on qualifying investments in plant and machinery.
- Super deduction means that for every pound a company invests their taxes will be cut by up to 25p.
- The result of this is a more internationally competitive UK capital allowance, lifting us from 30th to 1st with the present value of our plant and machinery allowances.

How super deduction impacts the tax payer:

• Capital allowances let taxpayers write off the cost of certain capital assets against taxable income. They take the place of accounting depreciation, which is not normally tax deductible. Businesses deduct capital allowances when computing their taxable profits. In translating its accounting profits into taxable profits, a business is usually required to 'add back' any depreciation, but can instead deduct capital allowances.

For example, a corporation tax paying company with accounting profits of £1,000, depreciation expense of £200 and total capital allowance claims of £300 would make the following adjustment:

- o Add £200 (depreciation expense) to £1,000 (accounting profits) = £1,200
- Deduct £300 (capital allowances) from £1,200 = £900 (taxable profits)

Apply the appropriate tax rate, e.g. corporation tax at 19%: £900 x 19% = £171 tax due.

Super deduction will allow investing companies to lower their corporation tax bills.

What qualifies for super deduction?

- Solar panels
- Computer equipment and servers
- Tractors, lorries, vans
- Ladders, drills, cranes
- Office chairs and desks,
- Electric vehicle charge points
- Refrigeration units
- Compressors
- Foundry equipment

More detail on the eligibility for different types of capital allowance can be found at <https://www.gov.uk/guidance/super-deduction>

Previous system (without super deduction)	New system (with super deduction)
<p>A company spends £10m on qualifying Assets</p> <p>Deducts £1m using the AIA in year 1, leaving £9m</p> <p>Deducts £1.62m using WDAs at 18%</p> <p>Deductions total £2.62m – and a tax saving of 19% x £2.62m = £497,800</p>	<p>The same company spends £10m on qualifying assets</p> <p>Deducts £13m using the super deduction in year 1</p> <p>Receives a tax saving of 19% x £13m = £2.47m</p>