

How to... make the most of capital expenditure

Business owners often reach the end of their accounting year and wonder how they might reduce their taxable profit. One of the more favoured methods of doing this is through buying fixed assets. Understanding how to effectively utilise capital allowances can significantly reduce your pharmacy's tax bill.

When calculating taxable profit businesses can claim a deduction for capital expenditure in the form of capital allowances.

Capital allowances are claimed, for the most part, on plant and machinery. Plant and machinery is not defined by HMRC but generally refers to assets used by the business for the purpose of carrying out the activities of the business.

The relief that capital allowances attract can vary depending on the type of asset purchased as certain assets can only qualify for specific allowances. The various allowances are detailed below.

Annual Investment Allowance (AIA)

The AIA allows businesses to deduct the full value of qualifying assets from their taxable profits, up to a limit of £1 million per year. This allows businesses to get full tax relief in the year of purchase.

The AIA limit is shared between every group/ associated company, so planning can become important for larger pharmacy groups to ensure that the AIA is utilised efficiently between companies.

Example

A pharmacy purchases prescription lockers for £15,000. As these will be capital items, they will be

capitalised in the accounts and there will be no deduction from profits in the P&L.

By claiming the AIA, the pharmacy can get capital allowances on the whole amount, reducing taxable profits by £15,000. If the pharmacy is paying the main rate of corporation tax (25%) this will reduce their tax bill by £3,750.



Full Expensing

If you have fully utilised your £1m AIA in the year, full expensing is available which allows businesses to deduct 100% of the cost of new, qualifying plant and machinery in the year of purchase. The key difference between assets qualifying for full expensing and those that qualify for the AIA is that any claims for full expensing must be for new and unused assets whereas AIA can be claimed on second hand assets. As long as the assets are new and unused, full expensing has no upward limit.

First-Year Allowances (FYA)

First-Year Allowances provide 100% relief on certain environmentally beneficial or energy-efficient equipment. For pharmacies, this is most likely to include fully electric vehicles and installations of electric vehicle charging points. Note that to qualify for FYA the assets purchased must also be new and unused.



Writing Down Allowances (WDA)

Where assets purchased are in excess of the AIA and do not qualify for full expensing or FYA, writing down allowances will be available. WDA allows a deduction of a percentage of the value of the assets purchased on a reducing balance basis each year. There are two rates at which WDA are given, either at 18% in the main pool or 6% for items in the special rate pool.

Items that qualify for the special rate pool include parts of a building considered integral features, as well as long life items (25+ years) and solar panels. Integral features can include lifts, air-conditioning systems and electrical systems.

Cars

Cars have their own set of rules when it comes to capital allowances, and they do not qualify for AIA. Electric cars with zero emissions qualify for the FYA as detailed above and all other cars will qualify for some form of WDA.



The percentage of WDA available depends on the emissions of the car, and in recent years the limit for a higher emission vehicle has decreased significantly.

Vans and other commercial vehicles will qualify as regular plant and machinery.

Description of car	Allowance claimed
New and unused electric or zero emission car	100% FYA
Second hand electric car	18%
New or second hand car with emissions below 50g/km	18%
New or second hand car with emissions above 50g/km	6%

Note, however, that where there is private use of a vehicle in a company, Benefit in Kind rules also apply.

Timing

Capital allowances are claimable when the expenditure is incurred, which normally means the date at which the obligation to pay becomes mandatory (often the delivery date). However, if there is a gap of more than four months between delivery and payment, the payment date is when the expenditure is deemed to have been incurred.

The exception to this rule is for hire purchase agreements, where full allowances can be claimed once a contract is entered into.

Purchasing a pharmacy– s198 claim

When purchasing a pharmacy, the property may or may not be included within the deal. If the purchase does include a property, the availability of capital allowances on existing fixtures are often overlooked.

A Section 198 claim under the Capital Allowances Act 2001 allows the buyer and seller of a property to agree on the value of qualifying fixtures for capital allowances purposes. The election must be made in writing, submitted to HMRC within two years of the sale, and cannot exceed the seller's original cost. Without a valid s198 election, the buyer may lose the right to claim allowances.

Conclusion

Capital allowances can help to reduce the taxable profits of your business and it is important to understand the ways in which allowances can be claimed.

However, it can be easy to get caught up in reducing your tax bill by committing large amounts to capital expenditure, and it is important to remember not to spend on assets you don't require. If you would like to know more about capital allowances, please email us at tax@thomsoncooper.com or call on 01383 628800 or 0131 226 2233.



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