Capital Allowances Explained

In accounting terms, when you by an asset to be used for a number of years in your business/company, you are able to write off the cost you initially spent on it by way of depreciation in your income statement.

Now in tax terms, depreciation is not an allowable expense and would normally get added back on to your net profit, to reach your adjusted trading profit, which is used for your income tax/corporation tax return.

However, since depreciation is not an allowable expense in tax terms, but you have legitimately spent the money to purchase the assets (e.g. a computer,) the government will allow you a deduction called capital allowances.

Capital allowances are a deduction off your adjusted trading profit, and could be looked at as a substitute for depreciation.

Special rules

1. There are various pools for capital allowances, and depending on the asset you purchase would dictate which pool it belongs to.

The pools:

General pool: Usually includes most assets including vans except for cars. You are allowed to claim 18% of the balance in this pool per year.

Special rate pool: This pool includes assets deemed as integral features eg. Heating systems, air-conditioning, escalators, elevators etc.) you are allowed to claim 8% per year.

Car pool: This pool is no longer in effect. Cars purchased are assessed on C02 emissions and are as follows from April 2015:
C02 emissions (75 g/km to 130g/km) = General pool (allowed 18%)
Co2 emissions (over 130 g/km) = Special rate pool (allowed 8%)

2. **Annual investment allowance:** For the period 6 April 2014 to 31 December 2015 you can claim an annual allowance of £500,000 every tax year for capital allowance purposes on plant and machinery. The allowance can only be matched against purchases you have made during the year (new additions), it cannot be carried forward to the next tax year, and can you can offset against any asset except for cars. Prior

3. **First Year allowance:**The government grants a First year allowance (claimable at

100%) for low emission cars (up to 75g/km of CO_2)

4. You do not need to claim Capital allowances in the year, as you have the option to carry forward.

5. Private use – this is only applicable to individuals & partnerships not companies. If you are using business assets for private use, then the private element needs to be deducted from the capital allowance claim. For limited companies private use of assets will be normally assessed as a benefit in kind for the employee and employer.