Capital Allowances

The tax world operates differently from the accounting world. In taxation depreciation (spreading the cost of an asset over the number of years you think it would last for) is not an allowable expense and would normally be disallowed when arriving ad your adjusted net profits (due to the fact it is completely subjective.

Example:

	Standard Accounts	Tax accounts
Profits	£100.00	£100.00
Depreciation	(£10.00)	(not allowed)
Overall profit	£90.00	£100.00

However, since cash has been legitimately spent on the purchase of the asset (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 (essentially saving tax.)

Pooling of Assets

For tax purposes, whenever assets are bought and depending on what they are, they are placed into one of two pools:

General pool: Usually includes most assets with exception of cars.

Special rate pool: This pool includes assets deemed as integral features eg. Heating systems, air-conditioning, escalators, elevators etc.)

Additional Allowances

1. Annual investment allowance: The government grants an allowance of £100K every tax year for capital allowance purposes. 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.

2. 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.