

Budget 2006



BN02

22 March 2006

INCREASE IN RATE OF FIRST-YEAR CAPITAL ALLOWANCES FOR SMALL BUSINESSES

Who is likely to be affected?

1. Small businesses investing in plant and machinery.

General description of the measure

2. The rate of first-year capital allowances for small businesses spending on most plant and machinery will be increased from 40% to 50% for a period of one year.

Operative date

3. The increased allowance will apply to spending incurred on or after 1 April 2006 for businesses in the charge to corporation tax, and on or after 6 April 2006 for businesses in the charge to income tax.

Current law and proposed revisions

4. Capital allowances allow the cost of capital assets to be written off against a business's taxable profits. They take the place of commercial depreciation charged in commercial accounts. The main rate of capital allowances for general spending on plant and machinery is 25% a year on the reducing balance basis. First-year allowances (FYAs) bring forward the time that tax relief is available for capital spending and allow a greater proportion of the cost of an investment to qualify for tax relief against a business's profits of the period during which the investment is made.
5. The amounts of FYAs are set out in section 52 of the Capital Allowances Act 2001. Small and medium-sized enterprises can claim 40% FYAs on their investments in most plant and machinery. There are some exceptions, including spending on long-life assets, cars and assets for leasing.

6. This measure will increase the rate of FYAs for small businesses only, from 40% to 50% for a period of one year, providing an increased cash-flow benefit for small business's investments in plant and machinery. The rate of FYAs for medium-sized enterprises remains unchanged at 40%.

Further advice

7. If you have any questions about this change, please contact your local HM Revenue and Customs office. Information about Budget measures and on how to contact local offices is available on the HM Revenue & Customs website at www.hmrc.gov.uk