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## **CAPITAL ALLOWANCES: SMALL PLANT AND MACHINERY POOLS**

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### **Who is likely to be affected?**

1. Businesses investing in plant and machinery, particularly small and micro businesses whose future expenditure on plant and machinery may be fully relieved by the annual investment allowance (AIA) (see BN12), but which have small historic pools of unrelieved expenditure, or businesses that may acquire such small pools in future.

### **General description of the measure**

2. Legislation will be introduced in Finance Bill 2008 to allow businesses to claim a plant and machinery writing-down allowance (WDA) of up to £1,000 where the unrelieved expenditure in the main pool or the new special rate pool (see BN08) is £1,000 or less. This is in response to comments made by business in consultation on the proposal to introduce the new AIA (see BN12) which is part of the business tax reform package announced at Budget 2007.
3. The measure will be a permanent feature of the plant and machinery code and will have effect for both the main 20 per cent pool and the special rate 10 per cent pool. It will provide a significant administration burden saving, especially to small and micro businesses, as businesses will no longer have to calculate WDAs on very small balances for many years, as would have been required under the current rules.
4. However, the measure will not have effect for any expenditure in 'single asset' pools as they have special rules that bring them to an end at a specified time.

### **Operative date**

5. The measure will have effect for chargeable periods beginning on or after 1 April 2008 for businesses within the charge to corporation tax and on or after 6 April 2008 for businesses within the charge to income tax.

## **Current law and proposed revisions**

6. Capital allowances allow business to write off the costs of capital assets, such as plant and machinery, against their taxable income. They take the place of commercial depreciation, which is not allowed for tax. On and after 1 April 2008 (for corporation tax), or 6 April (for income tax), the rate of WDA will be 20 per cent per annum for general plant and machinery, and 10 per cent per annum for “special rate” plant and machinery (BN08), both on a reducing balance basis.
7. In general, WDAs are calculated on the amount by which the “available qualifying expenditure” (AQE) exceeds the total disposal receipts (TDR) to be brought into account in that pool for that period. When calculating WDAs there is no *de minimis* rule so, for example, businesses with £1,000 of unrelieved expenditure and no new expenditure or disposal receipts would have to carry on calculating the annual writing down allowance for many years, even if the business may, for example, have scrapped the asset that gave rise to the allowances in the first place.
8. Legislation to be introduced in Finance Bill 2008 will enable businesses to claim a WDA of up to £1,000 in the case of each pool, once the unrelieved expenditure (or AQE minus TDR) in either the main rate pool and/or the special rate pool is £1,000 or less. Businesses do not have to claim the maximum allowance in respect of the balance in their small pools. Businesses with a main or special rate pool of £1, 000 or less can claim less than the whole residue if they prefer. This ensures that very small unincorporated businesses will not be disadvantaged by being required to take the full allowance immediately.

## **Further advice**

9. If you have any questions about this change, please contact Joy Guthrie on 020 7147 2610 (email: Joy.Guthrie@hmrc.gsi.gov.uk) or Malcolm Smith on 020 7147 2555 (email: Malcolm.Smith3@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)