Capital allowances for employees and offices holders

This Help Sheet tells you how to work out your capital allowances and balancing charges that go in boxes 20 and 16 of the *Employment* page. You can use the Working Sheets to calculate the figures you will need. The examples on pages 10 and 11 show you what to do.

What are capital allowances and balancing charges?

Capital allowances are tax allowances for the depreciation of assets or equipment that you have to provide to carry out your duties as an employee. Capital allowances are included in box 20 on the *Employment* page of your Tax Return.

You cannot claim capital allowances for a car, motorcycle or cycle. But if you use your own vehicle for work and your employer has not paid you for business mileage, or has paid you less than the maximum tax-free amount, you can claim a deduction for mileage allowance expenses in box 17 on the *Employment* page, (see the notes on box 17 on pages EN 5 and EN 6 of the *Employment notes)*.

Balancing charges are an addition to your taxable income. They sometimes arise when you sell assets or equipment on which you previously claimed capital allowances, or if you stop using them for your work. Balancing charges are entered in box 16 (with expenses payments received) on the *Employment* page.

Which expenses qualify?

Capital allowances will normally be available on the cost to you of assets or equipment it is necessary for you to provide in carrying out your duties as an employee. Generally speaking, anything you use in your work that has a useful life of at least two years may qualify for an allowance. Typical examples are office equipment such as desks and filing cabinets.

Assets and equipment are regarded as 'necessary' if you could not do your job without them. They must be things that each and every person doing your job would have to provide.

How are capital allowances calculated?

For 2007-08 there are two kinds of capital allowances:

- 'first year allowances' can be claimed on the cost of assets and equipment bought in 2007-08
- 'writing down allowances' can be claimed
  - on the cost of assets and equipment which you acquired in 2007-08 and on which you have not claimed first year allowances, and
  - on the value brought forward (the 'written down value') of items on which you claimed capital allowances for 2006-07.

First year allowances

Provided that your employment continued after 5 April 2008 you can claim a first year allowance at the 50% rate on the cost of assets and equipment bought in 2007-08.

If the asset is used only partly for work the first year allowance is reduced accordingly.

Example 1

On 6 October 2007 Jane starts a new job and has to spend £600 on a computer to enable her to do her work. She uses the computer 10% for private purposes and 90% for work. Jane claims a first year allowance for 2007-08 as follows:

Cost of computer	£600
First year allowance (50%)	£300
Allowance due = business proportion (90% x £300)	**£270**
(Value to carry forward to 2008-09 (£600 - £300)	£300)

Note: the full 50% first year allowance is due (subject to the restriction for private use) even though Jane's employment started part way through the tax year.

If the asset is used wholly for work, the value carried forward should be included in the 'pool' of assets and equipment on which writing down allowances will be claimed for 2008-09 onwards (see the notes on Working Sheet 2 on page 5).

If the asset is used only partly for work, the asset stays out of the pool and writing down allowances for 2008-09 onwards will be calculated separately (see the notes on Working Sheet 3 on page 5).

First year allowances - other points to note

- You do not have to claim first year allowances. If you wish, you can claim writing down allowances instead. You can also claim first year allowances on part of the qualifying expenditure and writing down allowances on the rest.
- Provided that your employment continued after 5 April 2008, you can claim a first year allowance for 2007-08 even if you sell the items in question on or before 5 April 2008. In that case, any unrelieved balance (£300, in Example 1 above) does not have to be carried forward in full to 2008-09.
  You can take it into account in calculating a writing down allowance (or balancing allowance) for 2007-08 (see notes on Working Sheets 2, 4 and 5).

If your employment continued after 5 April 2008, use Working Sheet 1 to calculate your first year allowance for assets or equipment bought in 2007-08.
If you want to claim first year allowance for more than one item:

- all the items that you use **wholly** for work can be included on the **same** Working Sheet
- **each** item that you use only **partly** for work must be entered on a **separate** copy of Working Sheet 1.

Working Sheet 1		
Cost of item(s) bought in 2007-08	A	£
First year allowance due *box A x 50%*	B	£
Business use proportion of box B (see Note 1)	C	£
Copy the figure in box C to box 20 on the Employment page		
Value to carry forward (see Note 2) *box A minus box B*	D	£
Keep for next year's Employment pages		

Note 1: if the asset is used wholly for business, the figures in boxes B and C will be the same.

Note 2: if the asset is used wholly for business, the value carried forward will be included in your 'pool' for 2008-09 (there is more about pooling in the notes about writing down allowances). If the asset is used only partly for work the value stays out of the pool and writing down allowances for 2008-09 will be calculated separately.

Writing down allowances

Except where first year allowances have been claimed (see page 2), the cost of assets or equipment that you use wholly for your employment is added together to form a pool of allowable expenditure. Writing down allowances are given for each tax year of continuing employment at a rate of 25% of the unrelieved expenditure in the pool at the end of the year (see Working Sheet 2).

Some items must be kept out of the pool, and you have to work out a separate capital allowance (or balancing charge) for each item. Those that require a separate calculation are:

- any assets or equipment that you use only partly for work
- any assets or equipment on which you have made an election for 'short life asset' treatment (see page 9).

Time apportionment (writing down allowances only)

If you started your employment during the tax year the writing down allowances for the first year must be apportioned on a time basis. For example, if you started a new employment on 6 June you would claim $^{10}/_{12}$ ths of the 25% allowance.

If you buy an asset or an item of equipment *part way* through the tax year you are still entitled to the full 25% writing down allowance as long as you were in the same employment throughout that year.

Items used only partly for work

If you use the item only partly for work the 25% writing down allowance is reduced in proportion to the amount of business use. For example, if a particular item was used three quarters of the time for business and one quarter privately, you would claim three quarters of the 25% allowance.

Writing down allowances: 'pool' of assets and equipment used wholly for work

Use Working Sheet 2 to calculate your writing down allowance for assets or equipment that you use wholly for work (but not 'short life assets') and if your employment continued after the end of the tax year. If your employment ended during the year, use Working Sheet 4 instead.

The calculation in Working Sheet 2 is based on the pool of unrelieved expenditure at the end of the year. This is made up of:

- any balance of unrelieved expenditure brought forward from 2006-07, plus
- the cost (including VAT) of any additional items bought in 2007-08 on which you have not claimed a first year allowance, minus
- the proceeds (sale or market value) from any equipment that you disposed of in 2007-08.

The writing down allowance due is 25% of the value of the pool at the end of the year (calculated as above).

If during the year you start or stop using an item of equipment for your work, without actually buying or selling it, writing down allowances are calculated as if you had bought or sold the item on the date when you started or stopped using it. The amount used in the calculation of your allowances for such items is the 'market value' of the item at the date when you started or stopped using it for your work. That is, the amount that you could have got for it if you had sold it in the open market on that date.

If you have to use a market value figure, say how you arrived at it in the 'Any other information' box on your Tax Return.

If your employment continued after the end of the tax year, use this Working Sheet to calculate your writing down allowance on items for which a first year allowance has not been claimed. If your employment ended in the year, use Working Sheet 4 instead.

Working Sheet 2

Pool value brought forward from 2006-07	A	£
Cost of assets or equipment bought in 2007-08 (or market value, if you started using for work an item bought in an earlier year), see Note 1	B	£
Sales proceeds of items sold in year (or market value of items that you stopped using for work without selling them), see Note 2. If the sale proceeds or value of any item are more than the original cost of that item, see Note 3.	C	£
If box C is more than box A + box B do not use this Working Sheet. Use Working Sheet 4		
Value available for allowances *box A + box B minus box C*	D	£
Writing down allowances due *box D x 25%* *Copy the figure in box E to box 20*	E	£
Pool value carried forward *box D minus box E* *Keep for next year's Employment pages*	F	£

Note 1: if an item on which you have claimed a first year allowance in 2007-08 is sold on or before 5 April 2008, and if you have used it solely for your work, deduct the first year allowance from the original cost and add the balance (if any) to your pool for 2007-08.

Note 2: you must include the sale proceeds (if any) of items on which you claimed a first year allowance in 2007-08.

Note 3: if the sale proceeds or value of any item are more than the original cost of that item to you or anybody connected with you, enter the original cost instead. Help Sheet 293 *Chattels and Capital Gains Tax* explains how Capital Gains Tax may apply to these items.

Writing down allowances - other assets and equipment

Use Working Sheet 3 to work out your writing down allowance for any asset or item of equipment that is not included in Working Sheet 2 and on which you did not claim a first year allowance. These may be:

- assets or equipment that you use only partly for your work
- any asset or equipment on which you have made an election for 'short life asset' treatment (see page 9).

The cost of these items is not pooled. You have to calculate a separate capital allowance (or balancing charge) for each item.

The calculation follows the pattern of Working Sheet 2, but there is an extra step. See 'Items used only partly for work' on page 3.

Make a separate calculation for each item that is not included in the pool in Working Sheet 2 and which you are still using for work at the end of the tax year, and on which you did not claim a first year allowance in 2007-08. If, at or before the end of the tax year, you:

- ceased employment, or
- sold the asset or item of equipment, or
- stopped using it for your work

use Working Sheet 5 instead.

Working Sheet 3

Value brought forward from 2006-07, or cost if item bought in 2007-08, or market value if you started using for work an item bought in an earlier year	A	£
Writing down allowances (see Note 1) *box A x 25%*	B	£
Business use proportion of box B (see Note 2)	C	£
Copy the figure in box C to box 20		
Value to carry forward *box A minus box B*	D	£
Keep for next year's Employment page		

Note 1: if your employment started during the year you must not claim the full 25% allowance. See the note on page 3 on 'Time apportionment'.

Note 2: if the asset is used wholly for business, the figures in boxes B and C will be the same.

Balancing allowances

A 'balancing allowance' is a special kind of capital allowance.
It may be due:

- for assets and equipment in the pool if your employment ceased during the year
- for other asset(s) or item(s) of equipment if during the year
  - your employment ceased, or
  - you sold the item in question, or
  - you stopped using it for work, but did not sell it.

In these cases, the 25% calculation in Working Sheets 2 and 3 does not apply. Instead, the allowance due is:

- the balance of expenditure brought forward from the previous year, minus
- the sale proceeds (or market value if you did not sell them) of the item(s) at the date of cessation, or when you stopped using them for your work.

Use **Working Sheet 4** to calculate a balancing allowance for items in the pool.

Use **Working Sheet 5** to calculate a balancing allowance for other items (making a separate calculation for each one).

For assets that were used only partly for business purposes, the balancing allowance is reduced to the business proportion as described in the note on page 3.

If the disposal value is greater than the value brought forward, calculate a balancing charge as described below. Use Working Sheet 4 or 5 for balancing charges as well as balancing allowances.

Balancing charges

A 'balancing charge' is an addition to your taxable income. It arises when the disposal value of an item (or items) is greater than the value brought forward. This can happen:

- if your employment ceased in the year, or
- if an asset is sold, or
- if you stop using an item in your work, but do not sell it.

Use **Working Sheet 4** to calculate a balancing charge for items in the pool.

Use **Working Sheet 5** to calculate a balancing charge for other items (making a separate calculation for each one).

You may have capital allowances (or balancing allowances) on some Working Sheets and balancing charges on others. If this happens, do not net them off. Instead, separately enter the amount of the balancing charges in box 16 and the amount of the capital allowances (or balancing allowances) in box 20.

Pool assets and equipment: balancing allowances and balancing charges

Use Working Sheet 4 if your employment ended at or before the end of the tax year, or if you used Working Sheet 2 and the amount in box C is more than in box A + box B.

Working Sheet 4

Pool value brought forward from 2006-07	A	£
Cost of assets or equipment bought in 2007-08 on which first year allowances have not been claimed (or market value, if you started using for work an item bought in an earlier year), see Note 1.	B	£
Sales proceeds of items sold in the year (or market value of items that you stopped using for work without selling them), see Note 2. If the sale proceeds or value of any item are more than the original cost of that item, see Note 3.	C	£
If (box A + box B) is more than box C, enter the difference (a balancing allowance) in box D. *Copy the figure in box D to box 20*	D	£
If box C is more than (box A + box B), enter the difference (a balancing charge) in box E. *Copy the figure in box E to box 16*	E	£

Note 1: if an item on which you have claimed a first year allowance in 2007-08 is sold on or before 5 April 2008, and if you have used it solely for your work, deduct the first year allowance from the original cost and add the balance (if any) to your pool for 2007-08.

Note 2: you must include the sale proceeds (if any) of items on which you claimed a first year allowance in 2007-08.

Note 3: if the sale proceeds or value of any item are more than the original cost of that item to you or anybody connected with you, enter the original cost instead. Help Sheet 293 *Chattels and Capital Gains Tax* explains how Capital Gains Tax may apply to these items.

Other assets and equipment: balancing allowances and balancing charges

Use a separate Working Sheet for each separate asset or item of equipment that is not included in the pool in Working Sheet 2 or 4, and which was no longer being used for your work at the end of the tax year.

Working Sheet 5

Value brought forward from 2006-07, or cost if item bought in 2007-08 or market value, if you started using for work an item bought in an earlier year. See Note 1 if the item is one on which you claimed a first year allowance for 2007-08.	A	£
Sales proceeds if item sold, or market value if you stopped using the item for work without selling it, but if the sale proceeds or value of any item are more than the original cost of that item, see Note 2.	B	£
If box A is more than box B enter the difference in box C	C	£
Business proportion of box C - a balancing allowance *Copy the figure in box D to box 20*	D	£
If box B is more than box A, enter the difference in box E	E	£
Business proportion of box E - a balancing charge *Copy the figure in box F to box 16*	F	£

Note 1: if the item is one on which you claimed a first year allowance in 2007-08, deduct the first year allowance from the original cost and enter the balance (if any) in box A. The first year allowance to be deducted is the full allowance for the year before any deduction for private use.

Note 2: if the sale proceeds or value of any item are more than the original cost of that item to you or anybody connected with you, enter the original cost instead. Help Sheet 293 *Chattels and Capital Gains Tax* explains how Capital Gains Tax may apply to these items.

Short life assets

There are special rules if you intend to keep the item of equipment for only a short time, or you think it will wear out quickly. If you acquire an item that you expect to dispose of, or which you expect to wear out within five years of the date you acquired it, you may elect to have the capital allowances calculated separately from your main pool.

This election:
- must be made in writing to us, and
- must be made no later than the first anniversary of 31 January following the end of the tax year in which you acquired the item (so an election for short life asset treatment of an item acquired in 2007-08 must be made by 31 January 2010).

The election cannot be withdrawn once it has been made.

The separate calculation of capital allowances means that relief for the actual depreciation incurred in using the item can be given more quickly than under the normal rules.

If the item has not been sold or disposed of by the end of the five year period, the balance in the separate pool for that item is added to the main pool, then dealt with in the normal way.

For further information ask us or your tax adviser.

Financing equipment by hire purchase, leasing agreement or alternative finance arrangement

If you acquire equipment under a hire purchase or leasing agreement the tax consequences depend on the arrangements you make. Broadly, the rules are as follows:
- if you have a hire purchase agreement, capital allowances are due on the deposit as soon as you pay it. Once you bring the equipment into use, the rest of the capital cost qualifies for capital allowances. Enter these in box 20
- for a lease agreement that is not a long funding lease, tax relief for rental payments is given as an expense deduction for the years in which they are payable. Expense deductions go in box 20 on the *Employment* page. If the lease contains any provision whereby the lessee shall or may become the owner of the item, then the hire purchase contract rules apply. If the lease agreement is a long funding lease the lessee may be able to claim capital allowances. If the lease began before 1 April 2006 it cannot be a long funding lease. You should consult us or your tax adviser if you think a lease is a long funding lease.

If you purchased the assets or equipment using an alternative finance arrangement the capital allowances cost is the original cost of the asset. The original cost does not include any alternative finance payments which are the charges made by your finance provider over and above the original cost of the asset or equipment.

If you use the item of equipment partly for private purposes, then the relief must be apportioned. For further guidance on this ask us or your tax adviser.

Inexpensive items of equipment

Instead of claiming capital allowances, you may be able to claim an expenses deduction for the full cost of some items in the year they are acquired. This applies if:

- the cost of the item is small, and
- the item replaces one on which capital allowances have not been claimed.

Examples of the sort of items that can be dealt with in this way are small tools, or protective clothing. For further information, ask us or your tax adviser.

Examples of capital allowances and balancing charges

Example 2 – pool of equipment used wholly for work: first year allowance and writing down allowance.

Sue started a new employment on 6 October 2006. She works from home in Cardiff, and it was necessary for her to buy the following items of equipment in order to do her work:

6 October 2006	a desk costing	£320
	a filing cabinet costing	£100
6 December 2007	a photocopier costing	£290

All these items are used wholly for work. Sue claims capital allowances for them as follows:

2006-07	Cost of desk	£320
	Cost of filing cabinet	£100
		£420
	First year allowance (50%)	£210
	Carried forward to pool for 2007-08	£210
2007-08	Pool value brought forward	£210
	Writing down allowance (25%)	£53
	Pool value carried forward	£157
	Cost of photocopier 6 December 2007	£290
	First year allowance (50%)	£145
	Value carried forward	£145
Total capital allowances for 2007-08 (£53 + £145)		£198
2008-09	Pool value brought forward	£157
	Value of photocopier brought forward	£145
	New pool value	£302
	Writing down allowance (25%)	£76
	Pool value carried forward	£226

Example 3 - assets used partly for non-business purposes: first year allowance and writing down allowance.

The facts are the same as in Example 2 except that on 6 March 2008 Sue is given extra responsibilities which mean that she has to buy a computer costing £800. She uses the computer 90% for her work and 10% privately.

Because the computer is not used wholly for work it does not go into the pool in Example 2. Instead, capital allowances on the computer are calculated separately, as follows:

2007-08	Cost of computer on 6 March 2008	£800
	First year allowance (50%)	£400
	Value carried forward	£400
	Allowance due (business proportion) £400 x 90%	**£360**
2008-09	Value brought forward	£400
	Writing down allowance (25%)	£100
	Value carried forward	£300
	Allowance due (business proportion) £100 x 90%	**£90**

Example 4 - balancing allowances and balancing charges

Sue ceases her employment on 30 November 2009. The items which she bought in Examples 2 and 3 are disposed of as follows:

Desk (cost £320) is retained for private use; its market value at 30 November 2009 is	£100
Filing cabinet (cost £100) is sold for	£25
Photocopier (cost £290) proves to be a rare example and is sold to the company's museum for	£500
Computer (cost £800) is retained for private use; its market value at 30 November 2009 is	£200

The balancing allowances and charges for 2009-10 are:

Pool assets

Value brought forward from 2008-09 (see Example 2)		£226
Disposal values:		
desk (market value)	£100	
filing cabinet (sale proceeds)	£25	
photocopier (original cost)	£290 *	£415
Balancing charge for 2009-10		**£189** **

Computer

Value brought forward from 2008-09 (see Example 3)	£300
Disposal value (market value at 30 November 2009)	£200
Balancing allowance (before adjustment for private use)	£100
Balancing allowance due for 2009-10 (business proportion) 100 x 90%	**£90** ***

*As the sale proceeds of the photocopier (£500) are more than the original cost (£290) the balancing adjustment is calculated using the original cost.

**The balancing charge of £189 goes to box 16 on the *Employment* page. If the total disposal value had been less than the pool value brought forward the result would have been a balancing allowance instead.

***The balancing allowance of £90 goes to box 20 on the *Employment* page.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.