

Capital allowances for employees and office 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.

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.

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.

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 2007 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.

How are capital allowances calculated?

From 6 April 2008 the following types of capital allowance may be relevant to you:

- 100% first-year allowances (FYAs) - for investments in 'green technologies',
- Annual Investment Allowance (AIA)
- Writing-down allowances (WDAs) - these are annual allowances, normally calculated at 20% a year, which reduce, or 'write down' any balance (or "pool") of capital expenditure on equipment ('plant and machinery') not already relieved by other allowances
- small pools allowance - an alternative to the normal WDA, which can write-off the whole balance in a pool, where this is not more than £1,000
- balancing adjustments - which can be either an allowance or charge. These can arise when your business ceases or you sell an asset for more or less than the total written-down value of the pool.

For further information on other allowances, please see Help Sheet 222 *How to calculate your taxable profits*.

Annual Investment Allowance

Annual Investment Allowance (AIA) is a new allowance. It replaces the 50% first year allowance that was available on the cost of equipment bought in 2007-08. You can claim AIA on any purchase of equipment (but not motor vehicles) made on or after 6 April 2008 up to an annual amount of £50,000. To calculate your entitlement add the costs of your purchases together. If the total is £50,000 or less, you can claim 100% of that whole amount as your AIA.

Writing-down allowances

Where you have spent more than £50,000 in a year on equipment, add all the expenditure together to make a 'pool' of costs. Deduct any Annual Investment Allowance (AIA) up to £50,000 that you are claiming. You can then claim a writing-down allowance (WDA) of 20% of the remaining pool value (unless the expenditure is 'special rate' expenditure - see page 3).

Example 1

You have spent £70,000 on general equipment and the total expenditure is pooled. You can claim £50,000 of this as an Annual Investment Allowance (AIA). The balance of £20,000 qualifies for a 20% writing-down allowance, which is £4,000. The amount remaining in the pool after deducting the WDA (£16,000) should then be carried forward to the next year.

Small pools of less than £1,000

If the balance of the cost after claiming AIA, together with any balance carried forward from any previous year, less the sale proceeds from any items you may have sold, is £1,000 or less at the end of a 12 month chargeable period, you may claim that whole amount as a 'small pools allowance' instead of the 20% writing-down allowance.

Example 2

John has been an employee for two years. For 2008-09 he spent £1,500 on equipment, and brought forward a pool of £700 from 2007-08. He can claim:

- the full £1,500 as an Annual Investment Allowance, and
- the £700 pool brought forward as a small pools allowance.

Paul has been an employee for three years. For 2008-09 he spent £50,500 on equipment. He can claim:

- the full £50,000 as AIA, and
- the remaining £500 is pooled, but because it is less than £1,000, he can claim it as a small pools allowance.

Special rate expenditure

Certain items of equipment such as:

- thermal insulation that you may have added to an existing building
 - integral features (for example, electrical systems, cold water systems, lifts, escalators and moving walkways), and
 - long-life assets (equipment with a planned life of over 25 years)
- qualify for special rate allowances at 10% a year.

Such equipment should be put into a separate 'special rate pool'. However, if the amount in that pool is less than £1,000 then small pools allowance can be claimed. You may use your £50,000 AIA wholly or partly against this expenditure, in preference to expenditure that qualifies at the 20% rate. Any balance of expenditure will be included in the 'special rate pool' and will qualify for allowances at 10%. For further information ask us or your tax adviser.

What if items are used partly for private purposes?

Where you use an item of equipment for both work and private purposes, the allowances you claim should be reduced by the amount of your private use. This will affect the amount of AIA and WDA you can claim.

Example 3

Fred buys a machine for £12,000 which he uses for the purposes of his employment 90% of the year and 10% privately for his own. Fred has not bought any other equipment or machinery in 2008-09 and claims AIA in respect of his new machine. His AIA must be reduced to an amount that is 'just and reasonable' to reflect the private use, so Fred claims a reduced AIA of $90\% \times £12,000 = £10,800$.

What if you receive a subsidy from your employer?

If you receive a payment from your employer to cover depreciation of the asset you use, this will reduce your entitlement to AIA and writing-down allowance.

Example 4

Ginger is an employee who works from home. She purchases a computer, printer and fax machine for £3,000 to use wholly for the purposes of her work. Her employer pays her a partial depreciation subsidy of £1,000 to cover part of the depreciation of these assets. Ginger claims an AIA on her expenditure of £3,000, but this **must** be reduced to £2,000 to reflect the partial depreciation subsidy.

Time apportionment – if you started employment during the year

If you have not been an employee for a full year, or stopped being an employee during the year, your AIA and WDA, if required, must be apportioned on a time basis and reduced accordingly.

Example 5

Jane became an employee on 30 August 2008. This means that she was an employee for 219 days during 2008-09. She can claim up to $\frac{219}{365}$ of the £50,000 AIA or £30,000.

If you have used up your AIA, you are entitled to the appropriate WDA but this should also be proportionately reduced.

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 2008-09 must be made by 31 January 2011).

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.

What if you stop using an item for work? Balancing adjustments

If during the year you stop using an item of equipment for your work, you need to make various adjustments to the allowances you have claimed. These adjustments are from the date you stopped using the item for work or sold it. There are two types of adjustment: balancing allowances and balancing charges.

Balancing allowances

A balancing allowance may be due:

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

In these cases, the allowance due is:

- the balance of expenditure brought forward from the previous year (if any) 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 official duties.

Use Working Sheet 1 to calculate a balancing allowance for items in the pool and Working Sheet 2 to calculate a balancing allowance for other items (making a separate calculation for each item). 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. The amount of any balancing allowance should be included in your capital allowances claim in box 20.

If the disposal value is greater than the value brought forward, calculate a balancing charge as described below.

Balancing charge

If the disposal value of an item (or items) is greater than the value of the pool then a balancing charge may be due. A balancing charge is an addition to your taxable income and can arise:

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

Use Working Sheet 1 to calculate a balancing charge for items in the pool and Working Sheet 2 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 set one against the other. Instead, enter the amount of the balancing charges separately in box 16 and the amount of the capital allowances (or balancing allowances) separately in box 20.

Example 6

Brian stopped being an employee on 12 January 2009. He has a pool value brought forward of £300 from 2007-08. He sells his equipment for £150.

Period ended 12 January 2009

Value of pool brought forward	£300
Minus sale proceeds	<u>£150</u>
Balancing allowance	£150

The end result is that there is a balancing allowance of £150 to go into box 20 on the *Employment* pages of the 2008-09 Tax Return.

If Brian had sold his equipment for £450 the result would have been a balancing charge of £150 - to be included in box 16 on the *Employment* pages.

Pool assets and equipment: balancing allowances and balancing charges

Working Sheet 1

Pool value brought forward from 2007-08

A £

Sales proceeds of items sold in the year (or market value of items that you stopped using for work without selling them), see Note 1

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 (a balancing allowance) in box C

Copy the figure in box C to box 20

C £

If box B is more than box A, enter the difference (a balancing charge) in box D

Copy the figure in box D to box 16

D £

Note 1: you must include the sale proceeds (if any) of items on which you claimed an allowance in 2008-09.

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.

Other assets and equipment: balancing allowances and balancing charges

Use a separate Working Sheet for each asset or item of equipment that is not included in the pool in Working Sheet 1, and which was no longer being used for your work at the end of the tax year.

Working Sheet 2

Value brought forward from 2007-08, or cost of item bought in 2008-09, or market value if you started using for work an item bought in an earlier year

A £

Sales proceeds if the item is 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 1)

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 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.

Worked example of capital allowances and balancing charges

Example 7

Jack Green is a photographer. He started work as an employee on 6 April 2008. As a requirement of his work, he bought a computer for £2,000, various cameras and lenses for £18,000 and specialist image processing equipment for £36,000.

The computer, cameras, lenses and specialist equipment together make a 'pool' of cost or value. In 2008-09 the pool qualifies for Annual Investment Allowance and the expenditure over that amount for a 20% writing-down allowance. For 2009-10 the annual allowance is 20% on the remaining pool brought forward.

Jack decides to retire on 30 September 2010. He sells the specialist image processing equipment for £14,000 and scraps the computer, cameras and lenses. This is Jack's capital allowance calculation:

Period ended 5 April 2009

Cost of computer	£ 2,000
Cameras and lenses	£18,000
image processing equipment	<u>£36,000</u>
Total capital expenditure	£56,000

What can be claimed?

Annual Investment Allowance	£50,000
20% writing-down allowance (£6,000 x 20%)	£ 1,200
Amount to be entered in capital allowances box 20	<u>£51,200</u>
Pool value to be carried forward to 2010	£ 4,800

Year ended 5 April 2010

Value brought forward	£ 4,800
20% writing-down allowance (£4,800 x 20%)	<u>£ 960</u>
Pool value to be carried forward	£ 3,840

£960 is entered in the capital allowances box on the *Employment* pages of the 2009-10 Tax Return.

Period ended 30 September 2010

Pool value brought forward	£ 3,840
Disposal proceeds	<u>(£14,000)</u>
Balancing charge	£ 10,160

The end result is that there is a balancing charge of £10,160 to go on Jack's 2010-11 Tax Return.

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