CAPITAL ALLOWANCES FOR EMPLOYEES AND OFFICE HOLDERS

This Help Sheet helps you fill in boxes 1.23 and 1.35 of the Employment Pages in your Tax Return to show your capital allowances and balancing charges.

WHAT ARE CAPITAL ALLOWANCES AND BALANCING CHARGES?

Capital allowances are a deduction from your taxable income. They are an allowance 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 1.35 in the Employment Pages of your Tax Return.

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 1.23 (with expenses payments received) in the Employment Pages of your Tax Return.

This Help Sheet tells you how to work out your capital allowances and balancing charges for items other than motor cars. You can use the Working Sheets to calculate the figures you will need. The examples on pages 6 and 7 show you what to do.

If you want to claim capital allowances for a motor car which you use for work ask the Orderline for leaflet *IR125: Using your own car for work*.

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 1998-99 there are two kinds of capital allowances:

- 'first year allowances' can be claimed on the cost of assets and equipment bought in 1998-99
- 'writing down allowances' can be claimed
  - on the cost of assets and equipment which you acquired in 1998-99 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 1997-98.

FIRST YEAR ALLOWANCES

Provided that your employment continued after 5 April 1999 you can claim a first year allowance on the cost of assets and equipment (but not motor cars) bought in 1998-99. The allowance due is a percentage of the cost of the item in question. The percentage to be used depends on when the item was bought, and where it is to be used, as follows:

	Date when item purchased (all dates inclusive)	Rate of first year allowance
Items acquired by small and medium sized businesses for use primarily in Northern Ireland	6.4.98 to 11.5.98 12.5.98 to 5.4.99	50% 100%*
Items acquired for use elsewhere	6.4.98 to 1.7.98 2.7.98 to 5.4.99	50% 40%

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

* **Important**: the legislation for the 100% first year allowance for Northern Ireland does not come into operation fully until approved by the European Commission. In the meantime claims may be made on a provisional basis.

Example 1

On 6 October 1998 Jane starts a new job and has to spend £600 on a word processor to enable her to do her work. She uses the word processor 10% for private purposes and 90% for work. The word processor is not used in Northern Ireland. Jane claims a first year allowance for 1998-99 as follows:

Cost of word processor	£600
First year allowance (40%)	£240
Allowance due = business proportion (90% x £240)	**£216**
(Value to carry forward to 1999-2000 (£600-£240)	£360)

Note: the full 40% 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 (if any) should be included in the 'pool' of assets and equipment on which writing down allowances will be claimed for 1999-2000 onwards (see the notes on Working Sheet 2 on page 3).

If the asset is used only partly for work, the asset stays out of the pool and writing down allowances for 1999-2000 onwards will be calculated separately (see the notes on Working Sheet 3 on page 3).

— 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.

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- Provided that your employment continued after 5 April 1999, you can claim a first year allowance for 1998-99 even if you sell the items in question on or before 5 April 1999. In that case, any unrelieved balance (£360, in Example 1 on page 1) does not have to be carried forward in full to 1999-2000. You can take it into account in calculating a writing down allowance (or balancing allowances) for 1998-99 (see notes on Working Sheets 2, 4 and 5).
- The 100% first year allowance for assets and equipment acquired for use primarily in Northern Ireland will be withdrawn if, within 2 years of the date of purchase, and while you or a person connected with you still own the item in question
  - the primary use to which the item is put is a use outside Northern Ireland, or
  - it is held for use otherwise than primarily in Northern Ireland.

You must let the Tax Office know if either of these things happens after you have made your Tax Return. If the 100% first year allowance has to be withdrawn you will be able to claim the appropriate 'elsewhere' rate of first year allowance, or a writing down allowance, instead.

WORKING SHEET 1 - FIRST YEAR ALLOWANCES

If your employment continued after 5 April 1999, use Working Sheet 1 to calculate your first year allowance for assets or equipment bought in 1998-99. If you want to claim first year allowance for more than one item:

- all the items that you use **wholly** for work and which attract the **same** rate of first year allowance 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.

Cost of item(s) bought in 1998-99	A	£
First year allowance due (see Note 1)	B	£
Business proportion of box B (see Note 2)	C	£
Copy the figure in box C to box 1.35		
Value to carry forward (see Note 3) *(keep for next year's Employment Pages)*	D	box A *minus* box B £

Note 1: see the notes on page 1 of this Help Sheet for the appropriate rates.

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

Note 3: if the asset is used wholly for business, the value carried forward will be included in your 'pool' for 1999-2000 (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 1999-2000 will be calculated separately.

WRITING DOWN ALLOWANCES

Except where first year allowances have been claimed (see above), 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. Things 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.

There is more information about 'short life assets' on page 5.

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.

Note that 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. But see the note on Working Sheet 3 about a 'private use' adjustment, for items used only partly for work.

WORKING SHEET 2 - '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'). Use Working Sheet 2 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 1997-98 **plus**
- the cost (including VAT) of any additional items bought in 1998-99 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 1998-99.

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 'Additional information' box.

WORKING SHEET 2 - WRITING DOWN ALLOWANCES: 'POOL' OF ASSETS AND EQUIPMENT USED WHOLLY FOR WORK

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.

Pool value brought forward from 1997-98	A	£
Cost of assets or equipment bought in 1998-99 (or market value, if you started using for work an item bought in an earlier year) (see Note 1)	B	£
Sale proceeds of items sold in year (or market value of items that you have 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	£

Note: if C is more than A + B do not use this Working Sheet. Use Working Sheet 4 instead.

Value available for allowances	D (box A + box B *minus* box C)	£
Writing down allowances due (Copy to box 1.35)	E (box D x 25%)	£
Pool value carried forward *(keep for next year's Employment Pages)*	F (box D *minus* box E)	£

Note 1: if an item on which you have claimed a first year allowance in 1998-99 is sold on or before 5 April 1999, 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 1998-99.

Note 2: you must include the sale proceeds (if any) of items on which you claimed a first year allowance in 1998-99.

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 IR293: Chattels and Capital Gains Tax* explains how Capital Gains Tax may apply to these items.

WORKING SHEET 3: 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 5).

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

The calculation follows the pattern of Working Sheet 2, but there is an extra step for items used only partly for work. For those items, the 25% writing down allowance is reduced in proportion to the business use of the item. 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.

WORKING SHEET 3 - WRITING DOWN ALLOWANCES: OTHER ASSETS AND EQUIPMENT

Make a separate calculation for each separate 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 1998-99. 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.

Value brought forward from 1997-98, or cost if item bought in 1998-99, or market value if you started using for work an item bought in an earlier year	A	£
Writing down allowance (see Note 1)	B (box A x 25%)	£
Business use proportion of B (see Note 2) (Copy C to box 1.35)	C	£
Value to carry forward *(keep for next year's Employment Pages)*	D (box A *minus* box B)	£

Note 1: remember that if your employment started during the year you must not claim the full 25% allowance. See the note on page 2 on 'Time apportionment'.

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

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BALANCING ALLOWANCES

A 'balancing allowance' is a special kind of capital allowance.

A balancing allowance 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 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 for Working Sheet 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 1.23 and the amount of the capital allowances (or balancing allowances) in box 1.35.

WORKING SHEET 4 – 'POOL' ASSETS AND EQUIPMENT: BALANCING ALLOWANCES AND BALANCING CHARGES

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

Pool value brought forward from 1997-98	A	£
Cost of assets or equipment bought in 1998-99, 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	£
Sale proceeds of items sold in the year (or market value of items that you have 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 (A+B) is more than C, enter the difference in box D.	D	£
Copy the figure in box D **(**a balancing allowance) to box 1.35.		
If C is more than (A+B), enter the difference in box E.	E	£
Copy the figure in box E (a balancing charge) to box 1.23.		

Note 1: if an item on which you have claimed a first year allowance in 1998-99 is sold on or before 5 April 1999, and if you have used it solely for your work, deduct the first year allowance from the orginal cost and add the balance (if any) to your pool for 1998-99.

Note 2: you must include the sale proceeds (if any) of items on which you claimed a first year allowance in 1998-99.

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 IR293: Chattels and Capital Gains Tax* explains how Capital Gains Tax may apply to these items.

WORKING SHEET 5 - 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.

Value brought forward from 1997-98, or cost if item bought in 1998-99, 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 1998-99.	A	£
Sale 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 A is more than B, enter the difference in box C.	C	£
Business proportion of box C (take the figure in box D to box 1.35 - a balancing allowance)	D	£
If B is more than A, enter the difference in box E.	E	£
Business proportion of box E (take the figure in box F to box 1.23 - a balancing charge)	F	£

Note 1: if the item is one on which you claimed a first year allowance in 1998-99, 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 IR293: 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 your Inspector of Taxes, **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 1998-99 must be made by 31 January 2001).

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 your Tax Office or tax adviser.

FINANCING EQUIPMENT BY HIRE PURCHASE OR LEASING AGREEMENT

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 1.35.
- for a lease agreement, tax relief for rental payments is given as an expense deduction for the years in which they are payable. Expense deductions go in box 1.35 in the Employment Pages. 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 you use the item of equipment partly for private purposes, then the relief must be apportioned. For further guidance on this ask your Tax Office or 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 your Tax Office or tax adviser.

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EXAMPLES OF CAPITAL ALLOWANCES AND BALANCING CHARGES

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

Sue starts a new employment on 6.10.97. She works from home, and it was necessary for her to buy the following items of equipment in order to do her work:

6.10.97	a desk costing	£320
	a filing cabinet costing	£100
6.12.98	a reprographic machine costing	£290

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

1997-98	Cost of desk	£320
	Cost of filing cabinet	£100
		£420
	first year allowance (50%)	£210
	Carried forward to 'pool' for 1998-99	£210
1998-99	Pool value brought forward	£210
	writing down allowance (25%)	£53
	Pool value carried forward	£157
	Cost of reprographic machine 6.12.98	£290
	First year allowance (40%)*	£116
	Value carried forward	£174
Total capital allowances for 1998-99 (£53+£116)		£169
1999-2000	Pool value brought forward	£157
	value of reprographic machine brought forward	£174
	New pool value	£331
	writing down allowance (25%)	£83
	Pool value carried forward	£248

*for items purchased for use outside Northern Ireland the rate of first year allowance was reduced from 50% to 40% on 2 July 1998.

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 6.3.99 Sue is given extra responsibilities which mean that she has to buy a word processor costing £800. She uses the word processor 90% for her work and 10% privately.

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

1998-99	Cost of word processor on 6.3.99	£800
	First year allowance (40%)	£320
	Value carried forward	£480
Allowance due (business proportion) £320 x 90%		**£288**
1999-2000	Value brought forward	£480
	Writing down allowance (25%)	£120
	Value carried forward	£360
Allowance due (business proportion) £120 x 90%		**£108**

Example 4 - balancing allowances and balancing charges.

Sue ceases her employment on 30.11.2000. 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 30.11.2000 is	£100
Filing cabinet (cost £100) is sold for	£25
Reprographic machine (cost £290) proves to be a rare example and is sold to the company's museum for	£500
Word processor (cost £800) is retained for private use; its market value at 30.11.2000 is	£200

The balancing allowances and charges for 2000-2001 are:

'Pool' assets

Value brought forward from 1999-2000 (see Example 2)		£248
Disposal values:		
desk (market value)	£100	
filing cabinet (sale proceeds)	£25	
reprographic machine (original cost)	£290 *	£415
Balancing charge for 2000-2001		**167 ****

Word processor

Value brought forward from 1999-2000 (see Example 3)	£360
Disposal value (market value at 30.11.2000)	£200
Balancing allowance (before adjustment for private use)	£160
Balancing allowance due for 2000-2001 (business proportion) 160 x 90%	**£144 *****

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

**The balancing charge of £167 goes to box 1.23 in the Employment Pages. 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 £144 goes to box 1.35 in the Employment Pages.

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