What are Capital Allowances?

Tax-deductible depreciation allowances are applied to assets, replacing standard depreciation charges, typically disallowed for tax purposes.

What comes under Plant & Machinery?

Not defined in the Capital Allowances Act 2001. Based on Yarmouth v France (1887), it includes any apparatus used permanently in a business (fixed or movable), excluding stock-in-trade.

In what manner, are capital allowances calculated?

Calculated on pooled amounts, not individual assets.

What does the main pool consist of?

Includes general plant & machinery, cars with emissions <50 g/km, factory machines, and office equipment. Zero-emission cars qualify for a 100% first-year allowance and are not pooled.

Small Pools of Plant and Machinery

If a pool's Written Down Value (WDV) drops to £1,000 or less, the business can claim up to £1,000 as a Writing Down Allowance (WDA) to fully write it off.

How do Capital Allowances work?

They function similarly to reducing balance depreciation, allowing a percentage of the remaining asset value to be deducted from trading profits annually.

Note: if an asset is sold for more than its original cost, it may trigger a capital gains tax liability.

Expenditure deemed to be P&M

• Items attached to buildings (buildings may qualify for SBA; land does not).

• Computer software, thermal insulation, personal security assets, and integral features of buildings.

Treated as Plant and Machinery.

What does the special rate pool consist of?

Covers **"unusual items"** like cars with emissions ≥50 g/km, integral building features (e.g., electrical, heating, cooling systems), solar panels, thermal insulation, and long-life assets (25+ years) with annual spending over £100k.

Annual Investment Allowance (AIA)

• £1,000,000 annual limit for Plant and Machinery (excluding cars).

• Excess goes to pools; time-apportion if rates change.

• Claim any amount up to the limit.

• Disposal values subtracted from pools.

• AIA usually covers everyday purchases, avoiding WDV pools.

Eligible Expenditure

Capital Allowances (CA) typically apply to the following types of expenditure:

• Plant & Machinery.

• Structures and Buildings.

• Patent Rights.

• Know-How.

• Research and Development.

These represent the areas where businesses can claim tax relief through capital allowances.

Writing Down Allowances & WDV

A business can claim WDA for each pool (Main or Special Rate). The process involves:

1.**Calculating WDV**	• Start with WDV brought forward from the previous year.
	• Add new assets at cost price (or market value if applicable).
	• Subtract assets sold at their sale price, scrap value, or compensation received (if disposal value > original cost, subtract original cost).
2. **Applying WDA**	Deduct a percentage of the total WDV to calculate the new WDV.
	• Main Pool: 18% per year.
	• Special Rate Pool: 6% per year.
	Adjust for chargeable periods shorter or longer than 12 months.

Optional Claim

It's not mandatory to claim the maximum WDA; unclaimed amounts remain in the pool for future use.

Hybrid rates apply if the chargeable period spans different rates.