

Finance (No.2) Bill 2023

Representation from the Association of Taxation Technicians (ATT)

Clause 7: Temporary full expensing etc for expenditure on plant or machinery

Executive Summary

Whilst the introduction of full expensing will benefit some of the largest companies in the country, it will provide no benefit to 99% of businesses.

More focus is required on the needs of smaller businesses, including how the capital allowances rules could be simplified.

The scope of full expensing should also be extended so that large, unincorporated businesses (such as farming partnerships) can benefit from it.

1. Background

- 1.1. Clause 7 introduces 'full expensing' - a new temporary 100% first-year allowance for main rate plant and machinery (50% for special rate expenditure¹). The introduction of full expensing was announced at the Spring Budget in direct response to the end of the super-deduction (which provided an enhanced 130% allowance for main rate plant and machinery) on 1 April 2023.
- 1.2. Companies incurring qualifying expenditure will have the choice as to whether to claim full expensing or the Annual Investment Allowance (AIA), which provides full tax relief on qualifying expenditure on plant and machinery in the year of acquisition, in a similar way to full expensing. The AIA is available for businesses subject to both income tax and corporation tax, whereas full expensing only applies for corporation tax purposes. Clause 8 sets the AIA at a permanent limit of £1m per year.

2. Full expensing and smaller companies

- 2.1. The introduction of full expensing will benefit the largest companies in the UK with investments in plant and machinery that exceed the AIA limit.
- 2.2. However, as noted in paragraph 3.70 of the Spring Budget document, 99% of businesses do not exceed the new, permanent AIA limit of £1m. These businesses are likely to claim the AIA in preference to full expensing, as it provides the same level of relief without the complexity of the full expensing disposal rules (which require a taxable balancing charge to be brought into account on the disposal of any asset on which full expensing has been claimed).

¹ Special rate expenditure includes assets which form an integral part of a building (such as lifts, heating and air conditioning systems), assets with a long life (over 25 years). All other qualifying expenditure on plant and machinery is classed as 'main rate'

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- 2.3. The vast majority of businesses will therefore not benefit at all from the introduction of full expensing, despite having lost access to the super-deduction from April.
- 2.4. In our view, these businesses would benefit from an overall review of the capital allowances regime. The current system can be confusing, with complexities occurring in relation to the precise timing of expenditure, fine statutory distinctions between similar types of asset and the nature and structure of a particular business. Simplification and rationalisation of the rules would provide greater certainty to businesses, as well as reducing the number of errors made.

3. Scope of full expensing

- 3.1. Full expensing is subject to a number of restrictions. In particular, it is only available to businesses within the charge to corporation tax. Unincorporated businesses such as sole traders and partnerships subject to income tax will therefore not benefit from full expensing.
- 3.2. Whilst the majority of unincorporated businesses will have annual expenditure on plant and machinery below the new £1m AIA limit, that will not be the case in all instances. For example, many farming businesses are run as partnerships, and can spend large amounts on farming equipment in any given year.
- 3.3. It seems unfair to provide differing levels of relief to businesses investing in qualifying plant and machinery simply on the basis of their legal structure. We therefore think that full expensing should be extended to apply to businesses subject to income tax, as well as those subject to corporation tax.

Association of Taxation Technicians
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Note:

The Association of Taxation Technicians

The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has over 9,500 members and Fellows together with over 6,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively