CAPITAL ALLOWANCES

What are Capital Allowances (UK Tax)

Capital allowances are a form of **tax relief** available to UK businesses. They let you **deduct the cost of certain capital assets from your taxable profits**, reducing the amount of tax you owe. They effectively replace accounting depreciation for tax purposes, since depreciation isn't tax-deductible.

Why Do Capital Allowances Exist?

- To allow businesses to get **tax relief** on long-term assets they buy for use in the business
- To encourage **investment** in machinery, equipment, infrastructure, and innovation

What can you claim Capital Allowances on?

You can usually claim on **plant and machinery**, including:

- Equipment
- Machinery
- Business vehicles (cars, vans, lorries)
- Fixtures (e.g., electrical systems, heating/AC)

Other qualifying categories include:

- Commercial vehicles
- Certain building fixtures and long-life assets
- Research & development-related costs

What you can't claim on?

Capital allowances **do not** apply to:

- Land
- Most buildings
- Items for personal use
- Business entertainment assets (e.g., boats for hospitality)

Types of Capital Allowances

1. Annual Investment Allowance (AIA)

Immediate deduction of up to £1 million on qualifying plant & machinery.

2. First-Year Allowances (FYA)

Allows 100% or 50% deduction in the first year for certain assets (e.g., energy-efficient equipment, special-rate assets)

3. Writing Down Allowances (WDA)

When AIA/FYA aren't available, you deduct a % each year (e.g., 18% main rate, 6% special rate).

4. Structures & Buildings Allowance (SBA)

Provides relief for certain building-related capital expenditure over many years.

Who can claim capital allowances?

Capital allowances can be claimed by:

- Companies
- Individuals and partnerships with taxable trading profits
- UK entities paying Corporation Tax or Income Tax on trading income

Illustration of Capital Allowances Tax Calculation

Your company buys the following assets in the 2025/26 tax year:

Asset	Cost	Qualifying Treatment
Machine (main-rate pool)	**£40,000**	**Eligible for AIA (100%)**
Office air-conditioning (special-rate asset)	**£20,000**	**Not using AIA — claim Writing Down Allowance (6%)**

Step 1 — Apply Annual Investment Allowance (AIA)

AIA allows you to deduct 100% of qualifying plant & machinery up to the £1 million cap.

AIA claim

- Machine cost: £40,000
- AIA allowable: £40,000
- Tax-deductible amount = £40,000

Step 2 — Apply Writing Down Allowance (WDA)

WDA calculation

- Asset cost: **£20,000**
- WDA rate: **6%**
- Claim: **£20,000 × 6% = £1,200**

Tax-deductible amount = £1,200

Remaining pool value carried forward = £20,000 − £1,200 = **£18,800**

Step 3 — Total Capital Allowances Claim for 2025/26

Allowance Type	**Deduction**
AIA (machine)	**£40,000**
WDA (special-rate AC unit)	**£1,200**
Total Capital Allowances	**£41,200**

Step 4 — Corporation Tax Saving

Assuming the corporation tax rate is 25%:

Tax saved = £41,200 × 25% = £10,300