

## THE SMARTA GUIDE TO

# TAX

## Part 3: Capital allowances

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The Smarta Guide to Tax is split into 8-parts

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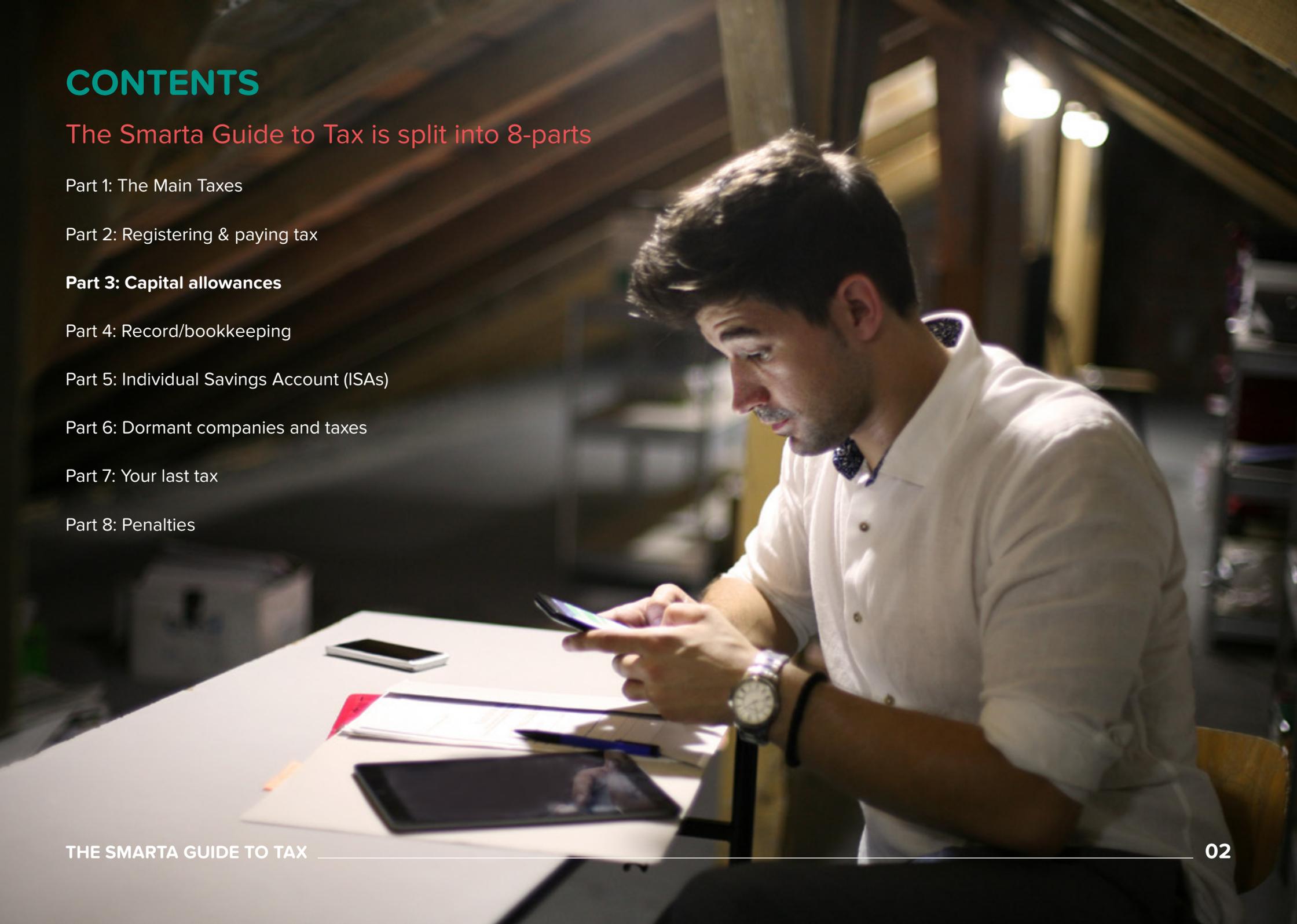
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**Taxes are simply unavoidable and, if you're a small business owner, it's best that you know your way around them and their millions of acronyms.**

Although there are multiple taxes, each with their own rules and regulations making it seemingly impossible to comprehend these mandatory financial charges; we have put together this comprehensive 8-part guide on all things tax. It covers both the basics and the more complex aspects of the world of taxation and is essential reading for any and all small business owners. Whether you're an expert on tax or a novice to the subject, we hope this guide will have something for you.

If you need further support on your business' tax or accounting, then contact [Smarta Tax Services](#) today.

Smarta also offer further aid for small businesses. We have a thoroughly in-depth and expansive blog site ([www.smarta.com](http://www.smarta.com)) with all the information and help you could possibly need when starting up your own company. Additionally, we offer the Smarta Business Builder, a monthly subscription service that provides you will all the tools you would need to start, manage and grow your business. If you're looking to register as a limited company, then Smarta Formations is one of the simplest and quickest ways to incorporate your business.

# CAPITAL ALLOWANCES

Although it may sound like your business could be taxed on literally every possible ingoing and outgoing, do not fret!

Capital allowances have been put in place by HMRC to allow you and your business to keep hold of some of that hard-earned cash. You may already know that you can claim back any tax you have paid on company cars for example, however, you most likely do not know about every allowance and way to keep hold of a little extra money so, read-on as we help you understand capital allowances in this next section of the Smarta guide to tax.

Don't forget to contact a member of the **Smarta Tax Services** team for any queries or if you'd like us to manage your tax and accounting on your behalf!



## Plant and machinery

Plant and machinery is probably the most common type of allowance that you have almost certainly already heard of. In this case, you can claim capital allowances on assets you purchase to be used in your business only (assets that are not for personal use). This includes, but is not limited to, equipment you may use such as computers, machinery you may have such as power tools in a construction company, and any vehicles bought purely for business use. Plant and machinery also covers the costs you may incur when disposing of or demolishing equipment/machinery.

Ahead of paying tax, capital allowances may enable you to deduct the entire value of these products from your revenue. Note: when working out the price of any product, use the current market value – even if it was a gift.

Some items and products are not covered under this bracket however, and so you will have to pay the full price for them and make any payments of tax that may be required. Plant and machinery does not include any equipment or tools or the like that you lease. It also does not cover buildings, land or structures (roads, bridges etc). Additionally, the government will not pay for any items that are purchased for fun or entertainment purposes, including your office's pool table, beer kegs or – as the UK Gov website states – yachts. After all, who doesn't like letting their employees have ride on their yacht after a hard day's work?



## Writing down allowances

Writing down an allowance is the process in which you deduct a percentage of the value of a product from your profits each year. So, after you have paid off the full price of your yacht and are looking for to fill that whole in your bank account you should separate all the products you have purchased for your business into three separate pool. For the majority of plant and machinery items, you will use the main pool with a current rate of 18%. There are, however, two other pools: the special rate pool and the single asset pool.

The special pool has a lower rate of 8% and encompasses items with a long life (of at least 25 years) if their total value is £100,000 or over – if it is under £100,000 then you can count them in the main rate pool. Additionally, thermal insulation placed in buildings, cars with a CO2 emission of more than 130g/km and 'integral' parts of buildings (e.g. heating systems) are counted within the special pool.

The single asset pool has a rate of either 8% or 18% depending on the item. It is for products that have a short life – ones that you will not have for a long time. As the business owner, you should decide what assets will have a sort life and then determine if they would come under the main rate pool or the special rate pool to conclude which rate will be used. If you must more items to the main pool if you have owned them for over 8 years. The single asset pool means you can claim capital allowances over a shorter amount of time.

Each pool is calculated on a yearly basis; however, you do not have to claim every year. For example, if at the start of one year your main pool has an opening balance of £4,250 and then you buy a computer for £500, your pool total will increase to £4,750. Now, at the end of the current tax year you could claim 18% of this total (£765), leaving your closing balance at £3,985. On the other hand, you could claim nothing so your opening balance for the following accounting period will be £4,750. As you can see, if you plan, by writing items down over several years you could claim back more money than you would through a yearly approach.

Now you have calculated the total deductible value depending on what pool your items fall under, you can – if you are a limited company – let HMRC know about what you want to claim in your self-assessment tax return. This does not have to be done annually, but - for any item you want to claim from – must be filed within two years of the purchase of that item. If you are a sole trader or a member in a partnership, you should let HMRC know in writing how much you want to claim and they will sort it for you.



## First year allowances

Purchasing any product that qualifies for first year allowance enables you to deduct the full cost before you pay tax. Note: you cannot claim first year allowances as well as your annual investment allowance. First year allowance covers equipment that is water or energy efficient such as some cars with low CO<sub>2</sub>, hydrogen refuelling equipment and water saving equipment. You claim first year allowances the same way you would claim for products under plant and machinery.



## Annual investment allowance (AIA)

AIA is a further type of capital allowance other than plant and machinery. Any business asset that falls under AIA has the added benefit of you being able to deduct 100% of the costs from your business's profit before tax. However, like all good things, there's a catch: the government has set a limit to what can be claimed under AIA to £200,000 per 12-month accounting period.

If your business's accounting year is less than 12-months then the amount of AIA must be adjusted. For example, if the accounting period in question is only 6-months long the full of amount of AIA you can claim is:  $(6/12) * £200,000 = £100,000$ .

You can claim AIA if you are a VAT-registered business, however, you claim the allowance on the cost of the asset after subtracting any VAT that you could also reclaim.

In terms of what you can claim AIA on, the scheme covers the majority of products and equipment that are also under plant and machinery, but you cannot claim it on company cars or gifts.

You should claim any AIA on your Company Tax Return if you are a part of a limited company; your self-assessment tax return if you are a sole trader or a partnership tax return if you are a partner in a business.

## SUMMARY

So, there you have it, the different ways Capital Allowances can work for you. Don't forget to sign up to **Smarta Tax Services** if you'd like us to manage your accounting on your behalf. Take a look through our additional guides for more information on all things tax.

## Further reading and references

In this section, we have put together a list of the best resources that are set to help you and your small business grow, and answer any further questions you might have about taxation.

### **[Smarta Tax Services](#)**

Smarta Tax Services will provide you with a personal experience with a dedicated Accountant that will ensure you keep track of day to day operations of your business, and you've completed all areas required to comply with HMRC and Companies House. Our trusted accountancy software allows transparency and you'll have 24/7 access online, so you can keep track of your business performance.

### **[www.smarta.com/blog/](http://www.smarta.com/blog/)**

Smarta's blog has thousands of articles to help you in your business endeavours. We would recommend our content on how to find accountant, helping your business with tax.

### **[www.gov.uk](http://www.gov.uk)**

The UK's government's website also has guides to help you and your business, additionally, here, you can use HMRC's online portal to pay tax.

### **[www.which.co.uk/money/tax](http://www.which.co.uk/money/tax)**

Which? also offers many different guides to help you save and spend money appropriately; their few guides on taxation go into intimate detail.

### **[The Daily Telegraph Guide to Tax](#)**

Every year the Daily Telegraph publish an in-depth

guide to taxation with all the dates and changes made to the taxation for that specific. Usually, they are published in May so, it is worth looking out for the 2018 edition in a few months.

### **[www.uktaxcalculators.co.uk](http://www.uktaxcalculators.co.uk)**

This site is updated yearly to accurately calculate the amount of any form of tax your business may own.

### **[www.taxguideforstudent.org.uk](http://www.taxguideforstudent.org.uk)**

The Tax Guide for Students is a site that provides information for university students on taxation, how much they should be paying and if they appeal to HMRC for any reductions. The information they create will be extremely beneficial if you are a student looking to start your own business whilst in education.

### **[www.taxcafe.co.uk](http://www.taxcafe.co.uk)**

Tax Café is an award-winning website that focusing on the UK tax system – it is of particular use for information about property tax and letting.

### **[www.moneysavingsexpert.com](http://www.moneysavingsexpert.com)**

Martin Lewis offers plentiful advice on all things monetary including tax. Although his guides are quite simple and largely aimed at families, it's worth a look.

### **[www.cartaxguide.co.uk](http://www.cartaxguide.co.uk)**

It does what it says on the tin: the Deloitte Car Tax Guide offers users all the information they could want about the taxation of company cars, including a calculator to help you avoid penalties for inaccuracy.

### **[The Bloomsbury Professional Tax Guide 2017/18](#)**

Published bi-annually, The Bloomsbury Professional Tax Guide provides a more complex analysis of UK and global taxation.

### **[www.taxaid.org.uk](http://www.taxaid.org.uk)**

TaxAid offers help to anyone with tax-related problems; while their site has blogs on tax, they also provide volunteer helpline advisors who can sort out your problems over the phone.

### **[www.searchaccountant.co.uk](http://www.searchaccountant.co.uk)**

This directory allows you to search for the best accountants up and down the UK, to help with your business's tax returns.

### **[www.tax.org.uk](http://www.tax.org.uk)**

The Chartered Institute of Taxation is British NGO whose members are all highly qualified in dealing with any tax-related issues.

## Glossary of acronyms

**HMRC:** Her Majesty's Revenue and Customs

**VAT:** Value-added tax

**GST:** goods and services tax

**NI:** National Insurance

**NICs:** National Insurance Contributions

**PAYE:** pay as you earn

**FPS:** Full payment submission

**CGT:** Capital Gains Tax

**SDLT:** Stamp Duty Land Tax

**PLC:** Private Limited Company

**UTR:** Unique taxpayer reference

**LLP:** limited liability partnership

**PSC:** personal service company

**AIA:** Annual investment allowance

**ISA:** Individual savings account

**NGO:** non-governmental organisation

**DOR:** Debt Order Relief

**NT:** Nil Tax Code

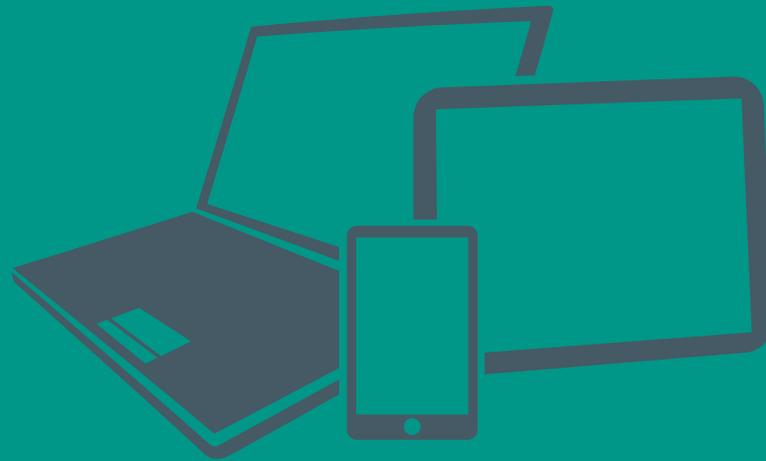
**IPA:** Income payment agreement

**IPO:** Income payment order

**PLR:** Potential loss revenue

**TTP:** time-to-pay

**CIS:** Construction industry scheme



Find out more at  
[tax.smarta.com](https://tax.smarta.com)

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TAX SERVICES