Afilia

Capital Allowances

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Report to PCPF on the Office of Tax Simplification 2018 review of Capital Allowances

OTS brief - a) to consider whether tax depreciation should replace Capital Allowances b) to invite observations from professional advisers

Capital Allowances principally represent a statutory system for writing down the cost of fixed plant & machinery in structures. This is typically the building systems (hot/cold water, heating/cooling, electrical etc) and then fit-out for business purposes such as toilets, staff facilities, built-in furniture, fire alarms etc. A sustainable approach is supported by Enhanced Capital Allowances for highly-efficient equipment.

Tax depreciation is an accountancy-based approach that sets appropriate writing-down rates for any assets owned by a business. Typically all the "loose plant" - furniture, computers etc.

Overlaps and disparities between the two systems was the fundamental tenet of the review. The Office of Tax Simplification also invited other comments on the Capital Allowances system from professional advisers.

The report

The OTS reported in late June and in principle supported a position that a change that combined Capital Allowances into tax depreciation would represent an improvement. It saw this as simplifying company reporting and being more transparent.

Nevertheless, it was also recognised that effecting change would create a major upheaval in the tax system with the need for a transition period. What was indeterminable was how this would affect the existing positions of many taxpayers and their assets.

The conclusion reached was that it was impossible to scope how taxpayers would be affected and the potential change could create many winners and losers. It would also cause unwelcome disturbance to tax inflows for government and consequently although the current system is imperfect, change would not be a sensible option.

Effect of Brexit

We can therefore assume the subject is unlikely to be revisited within, say, ten years. The only change looming is in leaving the EU, Britain will no longer have to adhere to restrictions on state aid. Thus if Brexit did create a significant downturn for the economy, the government could set whatever incentives it chose to try and counter this.

Primary care

In our submission on behalf of the PCPF we suggested that the current Annual Investment Allowance of £200,000 could be varied by sector in order to address societal need or market weakness. A higher allowance could be set to encourage GP premises investments. The OTS found this interesting but ultimately no new ideas in relation to fiscal incentives were included in their report.

Given the UK government's preoccupation with leaving the EU, it might be some time before any fundamental review of fiscal incentives is forthcoming. The current post-Grenfell trauma will keep the focus on retro-fit fire improvements and necessary changes to the building code.

PCPF's position

Available government funding will be insufficient to achieve all necessary premises upgrades and renewals, and fiscal incentives could help to close the gap. PCPF could focus on the need for ongoing lobbying in the medium term, and to consider its public position on the need for fiscal incentives to assist and drive forward its objectives.

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