

# Sloane Walker – Chartered Certified Accountants

## Fact sheet 103

### Introduction To Capital Allowances

#### So what are Capital Allowances?

A business will incur expenditure buying larger items, eg. equipment for use in its business. If for example a business buys a new digger for say £10,000, then no doubt this will be used for possibly the next 5 years.

The taxman realises that some larger items bought by a business will be used over the coming years, therefore he does not *usually* allow the full cost to be deducted in the first year. Rather, a business can normally claim capital allowances, ie say 20% of the original cost each year against its profits.

This is a fair system as you get some of the cost matched to the income generated by using the asset each year.

These rules have over the past few years changed with every single budget. For example, some years you can claim a first year allowance of say 50% of the cost in the first year, then a percentage of the residual cost for the remaining years.

So is this starting to sound a little confusing? Well don't worry, since the recent rules have changed a business can **currently claim 100% of the cost of a new piece** of equipment bought during the year up to a limit of £50,000 per year.

The idea is to try to encourage smaller businesses to invest in new plant and equipment and help everyone to start spending again!

**This guide is not intended to replace the advice of a qualified accountant. Please contact Sloane Walker on 01404 813694 for further assistance.**