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Info Document:
Super-Deduction

A limited time opportunity to save tax with your next HVAC upgrade

Limited Time Super-Deduction and Tax Incentive Scheme

"The HVAC tax incentive provides a fantastic, limited time opportunity that could save businesses thousands of pounds when they upgrade their HVAC systems."

Kurt Hedgley | Managing Director of JCW

How you can save tax with your next HVAC upgrade, with this limited time opportunity.

In the 2021 Spring Budget one of the main headlines was the introduction of new accelerated capital allowances rates for plant and machinery. We have been talking to the taxation team at Grant Thornton about these opportunities and they have kindly produced this guidance identifying how customers may reduce their tax bill while upgrading their HVAC system, along with other equipment sold by JCW.

The Budget introduced a **130% super-deduction** for plant and machinery that currently qualifies for 18% capital allowances, and a **50% first year allowance** for expenditure normally qualifying for the 6% special rate.

The majority of the equipment installed by JCW would be included in this second "special rate" category and would therefore be eligible for the 50% allowance. This includes **mechanical installations**, **heating ventilation** and **air conditioning** and **electrical installations**. The 130% could be available on fire safety equipment and other similar products sold by JCW.

Mechanical Installations

HVAC Installations

Electrical Installations

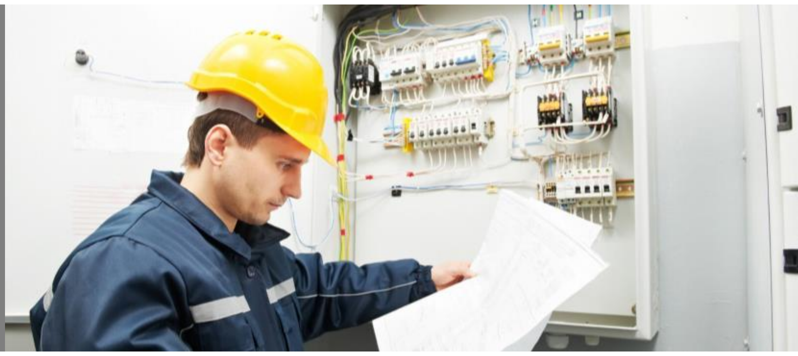
How does this work?

The super-deduction allows a qualifying business to claim 130% tax relief on plant and machinery; so, for every £100,000 spent, tax relief of £24,700 will be available (£100,000 x 130% @ 19%) instead of the current normal capital allowances tax relief of £3,420.

In addition, a new 50% first year allowance on expenditure, normally qualifying as a special rate pool, is available instead of the normal 6%; this would result in £9,500 of tax relief per £100,000 of spend (£100,000 x 50% @ 19%) compared to the current normal capital allowances tax relief of just £1,140. Special rate pool expenditure typically includes items integral to a property, for example, electrical systems, water systems and heating and cooling installations.

All of these measures go to creating a capital allowance regime that highly incentivises capital investment and may even generate opportunities to claim repayments from HMRC.

What are the key points?



1. The expenditure qualifying for the super-deduction and 50% FYA is unlimited. This will be welcome news for manufactures with a capital expenditure programme in excess of the £1m annual investment allowances (“AIA”) and comes without the complexity of the AIA sharing rules.
2. The new allowances will only apply to companies subject to corporation tax; sole-traders, partnerships and other non-corporate structures will not qualify.
3. It will be crucial to take careful note of the timing rules. The new allowances apply to expenditure incurred **between 1 April 2021 and 31 March 2023** and only where a contract was entered into on or after budget day. There may be opportunities to forward fund capital expenditure or to change accounting dates to maximise relief. HMRC will of course be looking out for obvious manipulation of the rules; for example, by voiding and re-issuing contracts for a later date.

What are the key points? Continued

4. The 130% super-deduction will only apply to expenditure on plant and machinery that would ordinarily be in the main pool qualifying for 18% capital allowances. Special rate pool expenditure, for example integral features and some long-life assets will be eligible for a 50% first year allowance reverting to 6% for subsequent periods. There may be opportunity for creative thinking and looking to treat assets as main pool items; for example, could an electrical installation or factory cooling system have a different treatment based on the facts?

5. The annual investment allowances ("AIA") remains at £1m until 31 December 2021 so it makes sense to optimise this to ensure that special rate pool expenditure is allocated to the AIA pool before taking advantage of the 50% FYA. Careful consideration of the various allowances on offer should be undertaken to maximise tax cash flow.

6. Expenditure has to be on new and unused assets so is not available for second-hand assets. It is also not available for expenditure on cars.

7. The new allowances will not be available on the majority of leased plant and equipment and the definition of leasing is drawn very widely and may have unexpected consequences.

8. There are also restrictions within groups of companies; for example, if the parent purchases kit and equipment on behalf of a subsidiary the super-deduction would not be available. There may be opportunities to look at planning to legally prevent falling outside of the new super-deduction allowances.

9. Changes have also been made to the hire purchase rules with a new intention of ownership clause inserted into the legislation.

10. Where assets upon which a super-deduction or 50% first year allowance have been claimed are disposed a balancing charge may need to be brought in to account, rather than a simple adjustment to the relevant pool. This could necessitate the need to closely track items upon which the deductions have been taken.

11. It is important to note that the tax relief is given at 19% and with the change in the corporation tax rate to 25% from April 2023, the future benefit of the tax relief should be considered.

12. Another consideration is the increased flexibility of the loss carry-back provisions for up-to three years from just one year. Claiming the super-deduction could result in a significant loss carry-back claim and secure a valuable repayment of corporation tax.

13. Planning opportunities could be available to treat elements of the special rate expenditure as super-deductions and we recommend that you speak directly to the experts at Grant Thornton to discuss this further.

How do you claim Super-Deduction Tax Relief?

For more information about the Super-Deduction Scheme, please contact Rob or Helen at Grant Thornton in the first instance:

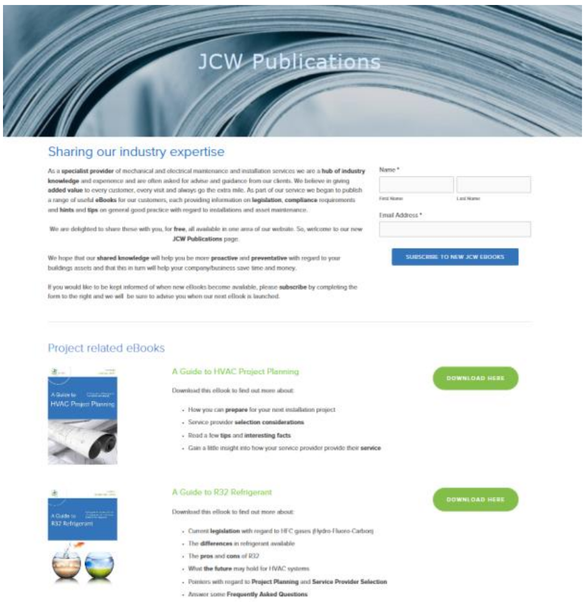
Rob Thomson | rob.s.thomson@uk.gt.com | 01473 298821

Helen Aitchison | helen.t.aitchison@uk.gt.com | 01223 225654

If you are planning an HVAC installation, contact us now to find out how we can help you plan for this to take advantage of this tax incentive scheme

enquiries@jcwes.com

Would you like to know more?



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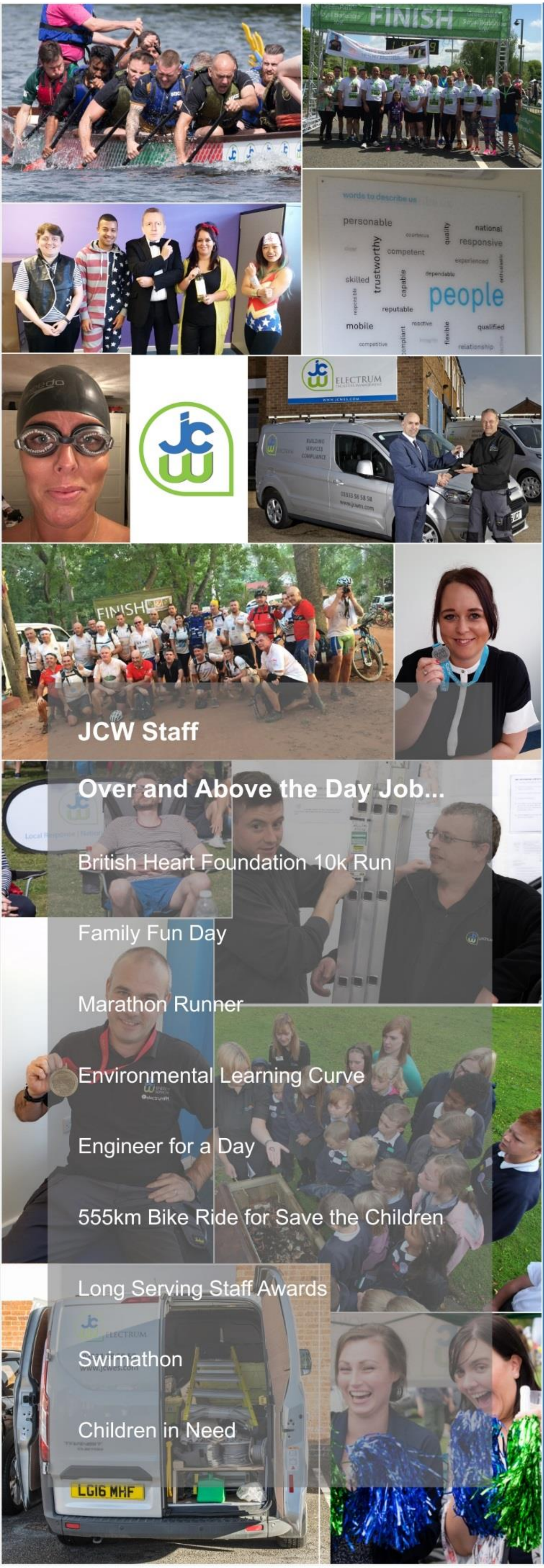

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About JCW Energy Services Limited

We provide complete project management, installation, in house maintenance and tailored managed solutions to a broad range of clients across the UK.

We are a national mechanical and electrical building service provider, offering integrated planned preventative as well as reactive maintenance services across all property portfolios.

Although JCW Energy Services Limited in its current form is a relatively new company, the group has history within the industry dating back to 1903.

Today JCW is in a unique position where it not only employs nearly 200 dedicated staff but also can offer mechanical and electrical services with an equal amount of engineers within each discipline. This means that we can self deliver hard services nationally through our mobile engineering workforce as well as provide full project management and installation services through our network of six offices.

Our offices are strategically placed and take ownership of their areas customers to provide a fast, reliable, local service. Our engineers are fully qualified, have a wealth of experience, are accommodating and genuinely care about the work they conduct and the service they provide.

Contact us

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