Thinking of spending between £25,000 and £100,000 on new equipment in the next two years?

You will need to plan the timing of the expenditure carefully to obtain the best tax relief.

The Government are proposing reducing the amount of tax relief you will get on capital expenditure from 1 April 2012 for businesses subject to corporation tax, and 6 April 2012 for those businesses subject to income tax.

Since April 2010 you could obtain full tax relief for capital expenditure up to £100,000. The Government are proposing reducing this relief to £25,000. Expenditure above £25,000 will still be tax deductible but at the rate of 18%. To obtain the best tax relief and therefore cash flow improvements you will need to purchase and have the equipment installed and running before 1 April 2012.

Let's look at an example:

X Ltd has a financial year end of 31 March. In March 2012 the company purchases equipment for £100,000. This expenditure will qualify for the full 100% tax relief and save £21,000 corporation tax (CT rate for 2011/12 is 21%) in the year to 31 March 2012.

If X Ltd delay their capital expenditure until April 2012 only £25,000 of the expenditure will qualify for the 100% tax relief, i.e. £5000 (CT rate for 2012/13 is expected to be 20%). The balance of expenditure, £75,000 will qualify for the normal annual allowance of 18%. Therefore the tax saving will be £2,700 (£75,000 x 18% x 20%). In total therefore tax relief will be £7,700.

By delaying the expenditure beyond 1 April 2012, X Ltd will have a £13,300 higher tax bill. The remaining tax relief will not be lost but will be claimed at the rate of 18% reducing balance over a number of years.

If you would like to discuss this with one of our tax specialists please contact Hodson Lewis on 01284 750524 or email nick@hodsonlewis.co.uk or maggie@hodsonlewis.co.uk