KERR Compressor Engineers
Compressors • Vacuum Pumps • Blowers

bcas
BRITISH COMPRESSED AIR SOCIETY

Why is now a great time to invest in your compressed air system?

The Chancellor's 'super deduction' is a record-breaking opportunity for businesses to reduce their corporation tax liability by 130% of the value of any investment they are making in the next two years on compressed air systems. This equates to a significant cash windfall for businesses and will help to bolster cash flow at a critical time.

What is the super-deduction tax break?

Companies will be able to claim a deduction from their tax bill if they invest in compressor systems for their business. Under the super deduction for qualifying expenditure incurred from 1st April 2021 up to and including 31st March 2023, companies can claim:

- a super-deduction providing allowances of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances.
- first year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances.

Qualifying equipment

The range can be anything from computer equipment to a new production line.

- Compressors
- Dryers and gas generators
- Vacuum pumps
- Low pressure equipment

There are exclusions – structures and buildings and equipment that landlords install. Care will need to be taken on leased plant and equipment which may too be subject to restrictions.

Who is eligible?

Companies within the charge to corporation tax on or after 1st April 2021.

Working example

Example one:

- A company incurring £1m of qualifying expenditure decides to claim the super-deduction
- Spending £1m on qualifying investments will mean the company can deduct £1.3m (130% of the initial investment) in computing its taxable profits
- Deducting £1.3m from taxable profits will save the company up to 19% of that – or £247,000 – on its corporation tax bill.

Example two:

Previous system	With super-deduction
• A company spends £10m on qualifying assets • Deducts £1m using the AIA in year 1, leaving £9m • Deducts £1.62m using WDAs at 18% • Deductions total £2.62m – and a tax saving of 19% x £2.62m = £497,800	• The same company spends £10m on qualifying assets • Deducts £13m using the super-deduction in year 1 • Receives a tax saving of 19% x £13m =£2.47m

Equipment already on order

If you have already contracted the purchase it won't be covered. Likewise, if you have an umbrella agreement in place already for lots of equipment and you are drawing down equipment from that, it isn't covered.

Links

UK Gov guidance: https://www.gov.uk/guidance/super-deduction
BCAS web page: https://www.bcas.org.uk/time-to-invest-in-captial-equipment-super-deduction-tax-break.aspx

Financial Advice: - This article does not provide any investment, financial, or tax advice.
We advise businesses to consult with their own legal and financial advisors and tax experts.