ICAEW TAX REPRESENTATION
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TAX RELIEF FOR TANGIBLE FIXED ASSETS USING ACCOUNTS DEPRECIATION

Letter dated 30 November 2017 from ICAEW Tax Faculty to the Office of Tax Simplification

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TEXT OF LETTER

ICAEW welcomes the opportunity to comment on the tax relief for tangible fixed assets using accounts depreciation call for evidence published by the Office of Tax Simplification (OTS) on 3 October 2017.

We believe that a system which provides tax relief on the basis of accounts depreciation could be a major simplification for some businesses, however there are a number of considerations which must first be taken into account which we set out in appendix 1 to this letter.

The OTS call for evidence acknowledges that some businesses are unclear as to the policy intention of capital allowances. We recognise this uncertainty and think it is necessary to clearly set out the policy intention (which we understand is to give tax relief for the cost of the asset rather than to reflect its period of commercial use in the business) before any changes are made to the capital allowances regime.

Following consultation with our members, ICAEW has decided not to respond to the specific questions in the call for evidence document but instead to outline the reasons why we believe that this current OTS review should be placed on hold.

Businesses face considerable change over the next five years. The introduction of Making Tax Digital will bring wholesale change to how and when businesses record their transactions for tax purposes; and Brexit provides challenges of its own for businesses of all sizes. Having reflected on the proposals set out by the OTS, we recommend that this particular project is put on hold until such a time that businesses have successfully navigated their way through the current programme of change. This will also provide much needed time for a more thorough debate including the policy position with regards to capital allowances.

We would be happy to discuss the matters raised in this letter further with the OTS.

APPENDIX ONE

Accounts depreciation versus capital allowances – key considerations

- Thought needs to be given as to whether a move to accounts depreciation would be mandatory. While such a change might simplify the tax computation for some, for others, capital allowances are perfectly satisfactory. Allowing businesses the option to choose between tax relief through capital allowances or for depreciation, could however lead to more complexity. Groups of companies might choose different models leading to still more confusion, particularly around deferred tax in the accounts.
- It is not clear whether this measure would be extended to all businesses including unincorporated businesses or whether it would only be aimed at companies. Is it the intention to introduce a threshold? For example, would only companies above the audit threshold be allowed to adopt accounts depreciation?
- A move to use depreciation instead of capital allowances is unlikely to be welcomed by small businesses that currently benefit from full tax relief upfront through the annual investment allowance (AIA).
- Larger businesses which invest more than the AIA would most likely benefit from the suggested new approach as rates of depreciation will generally be higher than the writing down allowance for tax purposes, so tax relief would be available earlier.
- Transitional measures would need to be taken into account where some capital allowances had already been claimed.
- It is unlikely that there can be a straightforward replacement of capital allowances with depreciation. Consideration would need to be given to qualifying and non-qualifying assets, the timing of relief and the rate of relief. Tinkering around the edges is likely to lead to complexities which would defeat the purpose of the suggested change.
- A straight move to depreciation would expand what is currently claimable through the capital allowances system. For example, to encourage investment (in the way that the AIA currently does) tax relief would need to be given up front followed by disallowing the depreciation. This does not seem to equate to simplicity.
- The rates of depreciation adopted by different businesses would be subjective. This could lead to a financial cost to the exchequer. Recent changes to the amortisation of goodwill were introduced to reduce such flexibility. HMRC could of course set the rates of depreciation, but this could create tension for financial reporting purposes. Depreciation must reflect the commercial nature of the transaction and this will differ depending on the industry, useful economic life of the asset and its replacement value etc.