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REPRESENTATION 35/21

FINANCE (NO.2) BILL 2019-21 CLAUSE 9 (SUPER-DEDUCTIONS AND OTHER TEMPORARY FIRST-YEAR ALLOWANCES)

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Text of ICAEW briefing for MPs on Finance (No.2) Bill 2019-21 clause 9 published by the government on 11 March 2021.

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EXECUTIVE SUMMARY

1. Industries that lease plant and machinery rather than acquire it outright make a significant contribution to the UK economy. The Construction Plant Hire Association estimates that the UK's Plant Hire industry is worth £4bn per annum. The Construction Equipment Association estimates that 60 - 65% of all Construction Equipment sold in the UK goes into Plant Hire.
2. Leased assets are excluded from the super-deduction and special rate first year allowances introduced temporarily through clause 9 of the Finance Bill. In HM Treasury's guidance to this measure it states 'This super-deduction will encourage firms to invest in productivity-enhancing plant and machinery assets that will help them grow, and to make those investments now.' We believe that the more widely these allowances are made available, the more businesses will grow and enhance their productivity. Hence, we believe that the exclusion of leased assets is contrary to the stated intention for this measure and should be removed.
3. In addition, the exclusion of leased assets would cause significant complexity in cases where buildings are constructed and parts of them are fitted and leased out (e.g. shopping centres, office and industrial spaces with individual leased units and university accommodation). This complexity would be reduced by allowing fixtures included in the leased units to qualify for the allowances.

THE MEASURE

4. Clause 9 introduced two new allowances to the Capital Allowances Act 2001.

   From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets will be able to claim:
   - a 130% super-deduction capital allowance on qualifying plant and machinery investments
   - a 50% first-year allowance for qualifying special rate assets (the 'special rate allowance')

DETAILED COMMENTS

The measure

5. Expenditure qualifying for the super-deduction is set out at para 9 (2), whilst expenditure qualifying for the special rate allowance is set out at para 9 (3). In both cases (at sub-paras (d) and (e) respectively) expenditure is excluded if it falls within one or more of the general exclusions in section 46 (2) CAA 2001. General exclusion 6 relates to the provision of plant or machinery for leasing.

Our concern

6. We are concerned that a significant proportion of expenditure that would otherwise have qualified for these allowances will be excluded as a result of the leased asset exclusion.
7. The types of expenditure excluded from the super-deduction include building-related plant (eg generators, diggers) that is generally leased by building companies, rather than purchased outright, as well as fixtures included in units leased out to commercial businesses, such as shops, industrial units and offices (which, in some cases, may qualify for the special rate allowance instead).

8. This means that a significant proportion of the UK economy will fail to benefit from these allowances and investment/growth may be lower as a result. This will affect companies manufacturing the plant used in the building trade, the builders themselves and the businesses that occupy the buildings that have been constructed.
9. It is difficult to know the extent of the initial cost and subsequent upside economic impact of removing the leased asset exclusion. The Budget Red Book at page 42 estimates that the super deduction and special rate allowance as currently designed would cost £29bn between 2021 and 2024, with an annual benefit to the economy of £2bn in 2024-25 and £2.8bn in 2025 – 26 (presumably rising further in subsequent years).
10. It is unclear whether the exclusion of leased assets is merely to ensure that these allowances are in line with previous first year allowances or is the result of a specific policy rationale, such as to limit the cost of the measure. If the latter, we argue that the government is not deterred by its estimate that the cost of these allowances will take some time (perhaps 10 – 15 years) to recoup in additional tax receipts. Hence, an additional upfront cost should not significantly alter the policy position unless the government is not convinced that the industries mentioned above would grow as a result of including leased assets within the measure.
11. In addition, we are concerned that it will prove difficult for some companies, particularly companies constructing buildings with fitted-out units which are leased out to third parties, to determine which assets qualify for which allowances if leased assets are excluded. The measure already introduces complexity through companies needing to identify assets qualifying for the super deduction so that the appropriate value for disposal proceeds can be included in capital allowances calculations when the assets are subsequently sold or scrapped. Including all fixtures would ensure that a common approach was taken across assets purchased to incorporate into the relevant development, thereby removing some of the complexity encountered.

Our recommendation

12. We recommend that paras 9 (2) (d) and (3) (e) are amended so that they both read as follows:

    ‘it is not within any of the general exclusions in section 46(2) of CAA 2001, except general exclusion 6.’

SUGGESTED AMENDMENTS SUBMITTED 14.4.21

Clause 9, Page 4, Line 6, at end insert – “, except general exclusion 6”

Clause 9, Page 4, Line 21, at end insert – “, except general exclusion 6”

FURTHER INFORMATION

As part of our Royal Charter, we have a duty to inform policy in the public interest.

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