Capital allowances: clarifying uncertainties

Large Corporate OMB



24 October 2024

CIOT and ATT have provided input into HMT/HMRC's consultation on clarifying areas of uncertainty within the capital allowance system.

On the back of the government's manifesto commitment to give businesses 'greater clarity on what qualifies for allowances to improve business investment decisions', HMT and HMRC have conducted a consultation with stakeholders to explore the main areas of uncertainty in the capital allowances system. This is intended to help them consider how they can best provide greater clarity; for example, through improvements to HMRC's guidance.

CIOT attended a stakeholder meeting to discuss this with HMT/HMRC in September, and submitted some suggestions in writing as to where guidance could be improved.

CIOT also noted that while clarity is important to provide businesses with certainty, and to build confidence in the tax system, much of the uncertainty and complexity in

the current capital allowances system has arisen because of the introduction of targeted relief over the years, which has become a feature of the UK's capital allowances legislation. (We do recognise that this incentivises business investment.) We said that it is a missed opportunity that this consultation precludes legislative change, because meaningful simplification, resulting in improved certainty, is not achievable without considering changes to the legislation.

CIOT reiterated what we said in our comments to the Exchequer Secretary to the Treasury on the Business Tax Roadmap (www.tax.org.uk/ref1352). We would welcome a strategic and longer-term view from the government around capital allowances to ensure that these align to the government's overarching policy objectives and strategy for business growth.

ATT had previously submitted comments to HMT/HMRC suggesting that there was scope to rationalise some areas of the capital allowances regime. We also noted that, for the smallest businesses, capital allowance changes are unlikely to drive investment decisions. Instead, the key issue is to make it easier for them to work out what relief they are entitled to so they can factor this into their costs and avoid protracted disagreements with HMRC. Whilst ATT are pleased to see further engagement in this area, we agreed with CIOT that precluding legislative change from the scope of consultation is a missed opportunity.

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