# The Farm Limited Company and Capital Allowances (FE)

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Posted October 23, 2023
*In* *Tax*

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Many farmers formed limited companies as part of their overall succession planning to take full tax advantage of the "super-deduction" that ceased on 31 March 2023 and Research & Development (R&D) relief.

## The advantages of the limited company

The limited company can suit a large number of diversified activities, for example, viticulture operations together with operations involving risk, such as tourism and food production, and/or a lot of R&D such as work to qualify for "farming for the environment" grants. It is therefore essential to understand how the new full expensing (FE) rules work. It is true that the company will be liable to a balancing charge, should a disposal value be required to be brought into account for an asset upon which a full expensing FYA has been claimed. This is contrary to the existing rules for disposal values upon which the Annual Investment Allowance (AIA) has been claimed, which would be deducted from the pool to which the asset had been applied and only trigger a balancing charge where the disposal value is in excess of any unrelieved expenditure in the relevant pool (Capital Allowances Act 2001, s 55).

This, therefore, presents a dilemma of whether to claim FE or AIA.

## The choice

Assuming that both full expensing and the AIA reliefs would apply at the time of incurring the expenditure, it would therefore be advisable to claim the 100% relief through the AIA rather than the full expensing FYA. This, however, might be complicated by any additional expenditure incurred within the relevant period by the business, or if applicable their wider group companies, which may restrict the amount of AIA that is available up to the current £1m cap. FE is unrestricted, although it is only available to companies subject to UK corporation tax.

Regarding the computation, it is important to clearly denote how the capital allowances calculations have been arrived at; setting out the basis of each pool including any tax written down value brought forward, as well as any additions for the period, and how the allowances are being claimed – via the 100% AIA or, if applicable the FE FYAs.

There are advantages (pros) and disadvantages (cons) of FE v AIA.

# 100% Full Expensing (FE)

| Pros | Cons |
|---|---|
| Qualifying expenditure on plant is unlimited | Applicable to main pool plant expenditure only |
| Each company has an entitlement even though part of a wider group of companies | Only new main pool plant expenditure not second-hand assets<br><br>Restricted for items of leased plant unless 'background plant' within a building<br><br>Balancing charge on disposal |

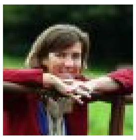
Clearly where the expenditure is due to be greater than £1 million the FE is the "stand out" choice.

# Annual Investment Allowance (AIA)

| Pros | Cons |
|---|---|
| Applicable to main pool and special pool plant | Qualifying expenditure on plant is limited to £1m (the highest it has been since its introduction in April 2008) |
| Applicable to new and second-hand assets | Shared if company part of wider group company |

| | |
|---|---|
| Applicable to leased assets | Balancing charge on disposal, if insufficient allowances available in relevant pool |

Where the expenditure is second-hand or relates to leased assets the AIA appears the “stand out” choice. However, as shown significant choices must be worked through with anticipation.

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