114. The worrying lure of the 130% super-deduction

While the 130% deduction on plant and machinery expenditure appears very attractive to companies in the short term, especially those that want to buy long-term plant and machinery, the balancing charge could have an impact with an extra cost. Such relief might attract a lot of conversations to incorporating the business in the short term, but there is a sting in the tail.

Companies will be required to recognise the disposal proceeds with the 1.3 factor resulting in some extra corporation tax at the rate of 25% or the 'tapered' rate. For plant and machinery with a fast turnaround (for example, tractors and commercial vehicles), there could be a 'net cost' compared to the pre-Budget arrangement.

However, where there are long-term assets (eg, a functional grain silo or silage clamp), the cashflow advantage is attractive, particularly with the carry back of losses.

All potential claims should be fully researched and projections carried out as to the 'real' tax saving. Likewise, a mad rush towards incorporation must be looked at in the round – especially where some capital taxes could be jeopardised by the choice of the wrong trading vehicle.

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