The Workboat Association

Guidance on the application of UK plant and machinery capital allowances:

Good Practice Guide

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Capital Tax Allowances

Introduction:

Businesses can claim capital allowances on items that you keep to use in your business - these items are known as ‘plant and machinery’.

What counts as plant and machinery?

- Equipment
- Machinery
- Business vehicles, for example cars, vans or lorries.

Collectively, the above are all known as plant and machinery. This includes boats/vessels, HMRC defines commercial vessels as **Ships**.

You can deduct some or all of the cost of the item from your profits before you pay tax.

Capital Tax Allowances:

Capital allowances can be claimed as a deduction from business profits before tax at the main rate of 18% or 6% for long-life assets.

An asset will be a long-life asset if when new it could be reasonably expected to have a useful economic life of at least 25 years. The useful economic life is the period beginning when any person first brings it into use and ending when it is no longer used, or likely to be used, by you or anyone else as a fixed asset of any business. You need to consider what is likely to happen to the vessel when your use ends. If you expect to sell it, whether in the UK or abroad, for use as a fixed asset in another business, the useful economic life includes periods of use by the new owner.

The internal procedure for determining this life-expectancy is known as the long-life asset test.

This applies to any expenditure for purchasing any ship since the exclusion ended on 1st January 2011.

If at the time of first use you can demonstrate that your new vessel can reasonably be expected to have a useful economic life of less than 25 years, this can be a fully appropriate assumption. HMRC may question this view, especially if you expect that your vessel will be scrapped within 25 years when most similar vessels’ useful economic lives can be expected to extend beyond 25 years. They may expect you to provide evidence of the differences in your vessel and it’s expected use which led you to conclude that it is not a long-life asset in your business.

Be prepared and create a file containing your test evidence which has led to (and including) your verdict as to the vessels expected useful economic life. This might include, among other things, any manufacturer’s marketing materials, shipping asset registers, other industry data, and any factors which may shorten its useful life in your business.

Although HMRC are aware that choice of hull construction materials (eg Aluminium or Plastic) do have a direct influence on the expected useful economic life of a vessel, this should not be taken for granted as every vessel is assessed independently.

It may be that an HMRC case officer investigates your decision as to the vessel’s useful economic life, but this investigation will only include the evidence available to you at the time the vessel was new and will not include contradictory evidence built-up since the vessel was originally brought into use for the purposes of the qualifying activity as a ship.

HMRC will want to make sure you have considered the useful economic life appropriately i.e., from new and with regard to likely future use of the vessel as a business asset in the hands of any future owner.

Glossary

Expected useful economic life
The useful economic life begins when any person first brings the asset into use. Do not treat:
- holding the asset as trading stock;
- construction of the asset.

The useful economic life ends when the asset ceases to be used, or to be likely to be used by any person as a fixed asset of a business (anywhere in the world).

New
Means unused and not second hand, but does not include the vessel whilst it is in construction or whilst it is being held as holding or trading stock (before it has ever been used at all).

Long-life asset
For the purposes of the Capital Allowances Act 2001, a "long-life asset" means a vessel which;
- if new, can reasonably be expected to have a useful economic life of at least 25 years, and
- if not new, could reasonably have been expected when new to have a useful economic life of at least 25 years.

WDA 6% per annum.

Long-life asset test
There is no 'actual test', this is simply a name given to an internal process made by the owner of an asset to look at the expected life estimated by reference to the facts when capital allowances are first claimed or when the asset was first brought into use if earlier. This will depend on the way in which the asset is likely to be used in that business and, if it is likely to be sold in working order, by any subsequent owner. It may be dependent on physical deterioration through use or effluxion of time, reduced by economic or technological obsolescence, or directly governed by extraction or consumption as in the case of equipment in a mine.

If an asset has been brought second-hand or is likely to be sold in working order you will have to take the periods of use by other owners into account in working out the useful economic life.

Main rate asset
For the purposes of the Capital Allowances Act 2001, a "short-life asset" means a vessel which;
- if new, can reasonably be expected to have a useful economic life of less than 25 years, and
- if not new, could reasonably have been expected when new to have a useful economic life of less than 25 years.

WDA 18% per annum.

HMRC describe assets which are <u>not</u> long-life assets as 'main-rate' assets.

Test evidence
See HMRC's Capital Allowances for Plant and Machinery Toolkit:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876377/Capital_2020.pdf

WDA
Writing down allowances let you deduct a percentage of the cost of an item from your business profits before tax each year.

The Workboat Association would like to thank and recognise the 'Capital Allowances Technical team, CT Innovation & Growth of Business, Assets and International (BAI) HMRC' - for their contribution to and review of this guidance.