

## Capital allowances – changes to short life assets

A business that incurs expenditure on plant or machinery can elect to have it treated as a short life asset (SLA).

The Finance Act 2011 enables businesses incurring expenditure on an item of plant or machinery from 1 April 2011 (6 April 2011 for unincorporated businesses) to make a short life asset election, in respect of that item, if they expect to sell or scrap it within an eight year cut-off period. This is an extension from the current four year period.

Such SLA expenditure is not included in the main capital allowance pool, but instead is allocated to a single asset pool. The result is that a balancing adjustment can arise where the short life asset is disposed of within an eight year cut-off period (previously four years). This ensures that, if the asset is sold or scrapped before the cut-off point, the total allowances given over the period of ownership equal the actual net cost of the asset to the business.

Writing down-allowances are given for the single-asset pool on a reducing balance basis at the same rate as those for the main pool.

SLA treatment cannot apply to certain assets such as most cars, expenditure on 'long-life assets' (assets with a useful economic life of at least 25 years) and integral features of a building or structure.

If the SLA asset is not disposed of within the eight year cut-off period, the remaining expenditure in the single asset pool is transferred to the main pool, where writing-down allowances will continue in the normal way.

The change is likely to be of most benefit to businesses that make substantial investments in plant or machinery in excess of the Annual Investment Allowance (AIA) with a useful life of between four and nine years.

If you would like further assistance with this matter, please contact:

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