

Going green

Be aware of changes to capital allowances, advises **John Flewitt**.

Significant changes to capital allowances take effect from April 6 this year. If your practice has a car or you are considering a purchase, then you need to be aware of the changes.

The Chancellor is allowing the self-employed to benefit from the

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Writing Down Allowance (WDA), which allows for the depreciation of capital equipment, when they buy cars with low emissions. Leasing also becomes more attractive. Whether leased or owned by the business, cars acquired after April will be treated differently according to their certified CO₂ emissions (fig 1).



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- Low emission cars (< 110 gm/km) will benefit from 100 per cent allowance in year of acquisition
- Medium emission cars (between 110 and 160 gm/km): expenditure goes into the general capital allowances pool with a writing down allowance (WDA) of 20 per cent
- High emission cars (> 160 gm/km): expenditure goes into the special rate pool with a WDA of 10 per cent

● Fig 1: Carbon emission rules.

A practice wishes to acquire a car for £50K, with CO₂ emissions of 225 gm/km. It is likely to sell the car after four years by which time the proceeds will be £20K. If it buys in March 2009, it will receive a capped WDA of £3K pa for three years, followed by a balancing allowance in year four of £21K on sale. The total cost of £30K (purchase price less sale proceeds) will have been relieved. If it buys in April 2009, it will receive slightly higher WDAs in the first three years of ownership, but with no balancing allowance on sale it will take eight years to relieve the first £20K of that £30K cost to the business, and a further 20 years to relieve the next £10K!

● Fig 2: How the time delay in obtaining full tax relief works.

While many dentists do not have a work-related car, some have a practice vehicle for domiciliary visits, for going to laboratories and for going on training courses. Although there is currently a 100 per cent allowance for the cleanest cars, other cars are taxed according to their value rather than their emissions, with so-called 'expensive' cars (list price over £12K) each being allocated to their own individual pool, and having their WDA restricted to a maximum of £3K pa. Cheaper cars go in the

general pool with a WDA of 20 per cent. No cars qualify for the new annual investment allowance.

In a similar move, payments for leased cars will only be 100 per cent tax deductible if the car's emissions are below 160 gm/km. Otherwise, 15 per cent of the payments will be disallowed.

Tax will not be the only factor to consider when making purchasing decisions, and in difficult economic times, many people will be deferring expenditure in any case. In addition, ➔

Currently, the lease payments for a £25K car would have 26 per cent of the payments disallowed. For a £50K car, the element disallowed would be 38 per cent. Under the new rules, there will be no disallowance if emissions are below 160gm/km, and only a 15 per cent disallowance if emissions are above this.

● Fig 3: The rules for leased cars.

As is often the case after the pre-budget report, we are awaiting final details of the rules. If you have existing cars in your practice, or you are considering new purchases in the coming months, here are a few things you might need to know:

1. Loss of balancing allowance

Most practices that own cars replace them every three or four years. Under the current rules, although the WDA is restricted to £3K pa for expensive cars, when the car is disposed of there is usually a balancing allowance which ensures that all of the net cost (purchase price minus sale proceeds) benefits from tax relief.

Under the proposed rules, cars other than those under 100 gm/km will either be in the 20 per cent pool or the 10 per cent pool. In both cases there will be no balancing allowance on disposal. The time delay in obtaining full tax relief may be significant (fig 2).

2. Existing cars

If your practice already owns cars, and those cars cost less than £12K, they will stay hidden in the general pool when the rules change, with a WDA of 20 per cent per annum (even if they have high CO₂ emissions). If you are planning to buy a cheaper car with high emissions, you may accelerate tax relief by acquiring the car before April 2009 and keeping it out of the lower 10 per cent pool.

If an existing car cost more than £12K and it is currently in its own expensive car pool, it will also stay there after the rules change. It will continue to benefit from a WDA of 20 per cent capped at £3K pa, and will benefit from a balancing allowance on disposal, for a transitional period of five years. Practices planning to acquire

expensive high emission cars can avoid the delayed relief brought in by the new rules if they acquire the car before April 2009 and dispose of it before the five year transitional period expires.

Existing expensive cars which are not disposed of in the transitional period will be transferred to the main 20 per cent WDA pool at the end of that period.

3. Private use

Many practices will not be buying cars for employees, but only for the self-employed business owners. In most cases, such cars will have an element of private use. Assets with private use are each given their own pool so that the relevant WDA can be reduced for the element of non-business use. This will continue to be the case with

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cars under the new regime. The significance of this is that it keeps the asset out of the main pools and on disposal a balancing allowance is still available.

Existing private use assets stay in their own pool and will continue to benefit from 20 per cent WDAs (before the non-business reduction) irrespective of CO₂ emissions.

4. Lead times

It can take some time between placing an order for a new car, and that car being delivered and full payment becoming due. The general rule for capital allowances has always been that the expenditure is incurred when there is an unconditional obligation to pay, unless payment is not required

within four months, in which case the expenditure is deemed incurred when payment is made.

Generally, if you enter into a contract to purchase a car before April 6 and payment is required within four months, the car will benefit from being treated under the existing and transitional rules.

However, if a car is ordered between now and April, and payment is required within the four months, BUT delivery does not occur until August 6, 2009 or later, the new rules will apply.

5. Leased cars

Leasing will be more attractive than it used to be. Cars covered by existing leases will remain under the current regime until the lease comes to an end. Cars under leases taken out from April 2009 will be subject to the new 15 per cent disallowance rule where CO₂ emissions exceed 160 gm/km. Short term hire cars will be subject to the same rules (fig 3).

6. Miscellaneous

It is proposed that cars purchased after the rule changes that do not have approved figures for CO₂ emissions (for example, kit cars) will be deemed to be high emission and will only be entitled to a 10 per cent WDA. It is also proposed that cars purchased under the new regime but first registered before March 1, 2001 (and therefore not having CO₂ data at all) will be deemed as medium emission and will be entitled to the 20 per cent WDA.

Motorcycles will be excluded from these new rules altogether, and expenditure on these will form part of the normal plant and machinery 20 per cent pool, unless private use of the asset in an unincorporated business requires a separate pool to be created. ■

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