

Super-deduction for investments into plant and machinery

January 2022

In addition to the £1 million Annual Investment Allowance (AIA) for investments into plant and machinery, at Budget 2021 the Government announced a new super-deduction.

What is the Super-Deduction?

For two years from 1 April 2021, businesses investing in new plant and machinery will be able to claim:

- a 130% super-deduction capital allowance on qualifying plant and machinery investments
- a 50% first-year allowance for qualifying special rate assets

Why is the government introducing a super-deduction?

- Since the Covid-19 pandemic, existing low levels of business investment have fallen, with a reduction of 11.6% between Q3 2019 and Q3 2020.
- Much of the UK's productivity gap with competitors is attributable to our historically low levels of business investment compared to our peers. Weak business investment has played a significant role in the slowdown of productivity growth since 2008.
- Making capital allowances more generous works to stimulate business investment. As a result, these measures can promote economic growth and counter business cycles.
- The super-deduction will give companies a strong incentive to make additional investments, and to bring planned investments forward.

Which deduction can be applied on Daikin Products?

Daikin Products are included in the **50% first-year allowance (FYA) for special rate (including long life) assets until 31 March 2023**. Examples of assets included in this special rate are as follows (new products and installations)

- Air-conditioning and air-cooling systems
- Hot and cold water systems
- Electrical systems, including lighting systems
- External solar shading
- Lifts, escalators and moving walkways
- Space and water heating systems
- Thermal insulation of buildings

How would this work in practice?

The new 50% first year allowance on expenditure, normally qualifying as a special rate pool, is available instead of the normal 6%; this would result in £9,500 of tax relief per £100,000 of spend (£100,000 x 50% @ 19%) compared to the current normal capital allowances tax relief of just £1,140.

Where can you find more info about the Super-deduction?

We've collected below a list of useful resources if you want to read more about the practicalities of the new super-deduction rate:

- Gov.uk Official Guidance: <https://www.gov.uk/guidance/super-deduction>
- Super-deduction fact sheet: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/967202/Super_deduction_factsheet.pdf
- Capital allowances manual: <https://www.gov.uk/hmrc-internal-manuals/capital-allowances-manual/ca23161>
- Policy papers: <https://www.gov.uk/government/publications/new-temporary-tax-reliefs-on-qualifying-capital-asset-investments-from-1-april-2021>

Daikin Airconditioning UK Limited The Heights Brooklands Weybridge Surrey KT13 0NY Tel 0845 6419000 Fax 0845 6419009 daikin.co.uk

London South	London Central	London North	Western Region	Midlands Region	Northern Region	Scottish Region
0845 641 9355*	0845 641 9350*	0845 641 9360*	0845 641 9320*	0845 641 9370*	0845 641 9340*	0845 641 9330*

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