

Capital allowance incentives



There are more business investment incentives cropping up over the next few years. These incentives, used with asset finance to purchase machinery and plant, could help your company grow. Here's a guide to what's included and who qualifies.

Full expensing

What is it?

Announced in the 2023 Budget, this tax incentive aims to encourage investment and boost productivity. From 1st April 2023 to 31st March 2026, companies can claim 100% capital allowance on plant and machinery investments that would usually qualify for 18% tax relief.



No limit on qualifying expenditure.

Who can claim?

From 1st April 2023 to 31st March 2026, any companies that are within the charge to corporation tax and invest in plant or machinery may claim. Sole traders, partnerships and limited liability partnerships don't qualify.



50% first-year allowance

There is a first-year allowance (FYA) of 50% for assets that would usually qualify for the special rate of 6% tax relief.

Which assets qualify?

Although there's no cost limit, capital investment must be in new and unused plant and machinery. Full expensing or the 50% FYA is available on all assets purchased outright or funded through hire purchase. It's also available for certain leased assets.



Eligible assets for full expensing

- Cranes and diggers.
- Machinery and tooling.
- Computer equipment and software.
- Office furniture.
- Commercial vehicles such as tractors, lorries and vans (not cars).

Eligible assets for the 50% FYA

- Electrical and lighting systems.
- Hot and cold-water systems.
- Air-conditioning systems.
- Lifts.
- Solar shading.

Ineligible assets

- Second-hand or used assets.
- Cars.
- Buildings and structures (excluding integral features).

Find out more about full expensing, including the 50% FYA allowance, at [gov.uk/government/publications/full-expensing/spring-budget-2023-full-expensing](https://www.gov.uk/government/publications/full-expensing/spring-budget-2023-full-expensing)

Annual investment allowance

What is it?

Annual investment allowance (AIA) lets businesses deduct the cost of certain assets from their profits before tax. It means a business can save £1 in taxable profits for every £1 spent.



Also, if your accounting period straddles the calendar year, your relief may be restricted. And remember to always weigh up the pros and cons of bringing purchases forward.

Taxable profits



up to a maximum of

£1,000,000.

Who can claim?

Any business, except for mixed partnerships (consisting of individuals and companies) and trustees.



What assets qualify?

Eligible assets

- Cranes and diggers.
- Machinery and tooling.
- Office furniture.
- Computer hardware and qualifying software.
- Commercial vehicles such as vans and trucks.

Ineligible assets

- Cars.
- Buildings and structures (excluding integral features).
- Land.
- Existing or gifted assets.

Qualifying expenditure covers most assets bought for business use. It also applies to hire purchase and potentially leased assets. For specific tax advice, please speak to your accountant.

Freeports

What are they?

Freeports are tax sites where the usual tax, customs and planning regulations don't apply. They're usually trade and transport hubs situated near maritime ports or airports.

Where are they?

The 10 Freeports in England and Wales are listed below.

- Anglesey.
- East Midlands Airport.
- Freeport East (Felixstowe and Harwich).
- Humber.
- Liverpool City Region.
- Plymouth.
- Port Talbot and Milford Haven.
- Solent.
- Thames.
- Teesside.



Two Green Freeports have been announced in Scotland – Inverness and Cromarty Firth, and the Firth of Forth.

What tax breaks do they offer?

These capital allowances apply to qualifying expenditure incurred before **30th September 2026** once a Freeport tax site has been created.

- Enhanced capital allowances of 100%, uncapped, for new and unused plant and machinery, and special-rate assets (usually 18% and 6%).
- Enhanced structured and buildings allowance of 10% for building or renovating non-residential buildings and structures (usually 3%).

Freeport tax reliefs are only available after a Freeport tax site has been designated. This note is for guidance only and specific tax advice should be sought on the use of Freeport sites in the UK.

The tax relief also applies to:

- property tax relief on the purchase of land or property for a qualifying business
- full business rates relief for new businesses and certain existing businesses
- tax relief for employers in the form of lower national insurance contributions for eligible employees.

Investment zones

In March 2023, the UK Government announced the introduction of investment zones in knowledge-intensive clusters. These are expected to offer the same tax incentives as Freeports for a period of five years. Work is ongoing to identify the locations of these investment zones in England, which are expected to be situated in the following areas.

- The East Midlands.
 - Greater Manchester.
 - Liverpool City Region.
 - The North East.
 - South Yorkshire.
 - Tees Valley.
 - West Midlands.
 - West Yorkshire.
- It's expected there will be at least one investment zone in each of Scotland, Wales and Northern Ireland.
- Further detail is expected to be announced in due course.**

Go to assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1142995/Investment_Zone_Policy_Prospectus.pdf to find out more about the proposed investment zones.

Summary of capital allowance incentives

The table below provides a summary of how the various capital allowance incentives compare.

	General regime	Full expensing / FYA	Investment zones/Freeports
New additions to main rate pool capital expenditure	18% (£1m AIA)	100%	100%
Second hand additions	18% (£1m AIA)	18%	18%
Special rate pool capital expenditure	6%	50%	100%
Structure and Buildings allowances	3%	3%	10%

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