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Super-deductions

In the 2021 Budget the Chancellor announced a package of capital allowance measures designed to stimulate business investment. One measure announced was the super-deduction of up to 130% tax relief on purchases of new machinery. We know that many of our customers will be interested in this but may be uncertain as to what it means for them so we have put together a few worked examples that may be useful.

Scenario 1

Company 1 wishes to purchase a new saw at a cost of £50,000. They purchase this saw within the 2 year period (April 1st 2021 – 2023). At the end of their financial year they have made a profit of £100,000. The super-deduction of 130% (£65,000) is applied to this profit so that their profit before tax is now £35,000. They pay corporation tax at 19% on this, so have a corporation tax bill of £6,650.

Scenario 2

Company 2 wishes to buy a large number of machines at a total cost of £500,000. At the end of their financial year they have made a profit of £300,000. The super-deduction of 130% (£650,000) is applied to the profit so that they now have a loss of £350,000. This loss can be carried back over the previous 3 years when the company traded profitably and paid corporation taxes and reclaim previous tax paid to HMRC as a cash lump sum of £66,500.

Scenario 3

Company 3 wishes to buy a single machine for £10,000 as a new start up in their first year of trading. At the end of the year the company has broken even. The super-deduction of 130% (£13,000) is applied meaning that the company reports a loss of £13,000. This loss is carried forward into their second year of trading meaning that the tax liability is reduced in the future once they become profitable.

Please note that this allowance is only applicable to new machinery and cannot be used for used machines. If you are in any doubts about the implications for your business we suggest seeking professional tax advice.