Starfish Accounting

My Virtual Financial Controller

Financial Wizardry for the Self Employed

Capital allowances guide

"On a mission to help women in business"

Accounting, tax & bookkeeping services
for women in business & microbusiness

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Jargon busters

Capital allowances guide

What are capital allowances?

Most things you buy are treated as "normal" business expenses when working out your profit.

However, if you have something which is going to last you for several years – in accounting jargon this is called a “fixed asset” – then that is treated differently. Some examples of fixed assets include:

- Computer, laptop, printer, tablet, smart phone;
- Desk, chair, filing cabinet;
- Machinery, tools;
- Car or van.

Instead of putting these in with your other business expenses you should track them separately as they are put on their own “capital allowances” page in your tax return.

This only applies if you are following traditional accounting, not cash based accounting.

When you know how much you have spent on your fixed assets during the tax year (including vans but **excluding** cars), and assuming that is less than £250,000 (if you’ve spent more than that then you can probably afford an accountant to do the calculations for you!), you can claim that amount in the “annual investment allowance” box on your tax return.

You do however need to check whether you use the assets just for business, or part for personal. If you do have some personal use then take off part of the cost (you can use a rough percentage split) before you claim your capital allowances.

Cars – a whole different ball game

If you have bought a car and you do a significant number of business miles then instead of calculating mileage it may be worth putting through your actual running costs including fuel, road tax, insurance, repairs, etc. As well as running costs, you can also claim some capital allowances.

Unfortunately the easy annual investment allowance route can't be taken for cars.

Take a look at lesson 3 of the “Get your accounts under control” module for some more detail around how to claim capital allowances for your car.

Disclaiming capital allowances

You don’t have to capital allowances, so if your net income is below the personal allowance and National Insurance thresholds, and therefore you won't be paying any tax, you can choose NOT to claim your capital allowances and save them for a future year when your income is higher. Why take a tax allowance if it doesn't save you tax?

There is no limit to how long you can carry them forward for, but you are restricted to how much you can take a year when you do start claiming them.

If however your business is loss making but you are still paying tax due to your other income then I would still claim them – you can offset your business losses against your other income and save tax that way instead.