

OTS call for evidence: tax relief for tangible fixed assets using accounts depreciation

General Features

Large Corporate

OMB

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The Office of Tax Simplification (OTS) has published a call for evidence regarding whether using accounts depreciation to provide relief for capital expenditure instead of capital allowances would simplify the preparation of corporation tax and income tax computations

Background to the call for evidence

In its review of the corporation tax computation ([the final report](#) for which was published in July 2017) the OTS identified capital allowances as a major source of complexity, in particular distinguishing between qualifying and non-qualifying assets and the different writing down rates to be applied.

Following on from this the Chancellor has asked the OTS to undertake a review exploring the impact and challenges of replacing capital allowances with accounts depreciation for both corporation tax and income tax purposes.

Scope of the OTS review

The OTS will review whether using accounting depreciation to provide relief for capital expenditure would be an affordable and practical simplification for businesses and the Exchequer. In its simplest form, this would remove the need to classify assets for capital allowances purposes, with the treatment of tangible assets for tax purposes flowing directly from that adopted in the accounts.

In its scoping document (<https://tinyurl.com/ycyquorn>) the OTS outlines that this review will need to set out who the winners and losers of such a change would be, including ways in which it could be made revenue neutral and the practical benefits and challenges involved.

The OTS review will:

Look at tax relief for tangible assets only.

- Consider both incorporated and unincorporated businesses.
- OTS questions

The [call for evidence](#) contains 16 detailed questions, though responses do not have to be constrained to these. The areas covered by these questions include:

Background information on the level of investment in fixed assets by different businesses.

- The use of GAAP, including what impact different accounting regimes may have and how depreciation policies are applied in practice.
- What adjustments to accounts depreciation may be necessary.
- Whether the proposal would cause particular problems for income tax returns.
- How to accommodate timing incentives such as the Annual Investment Allowance (AIA).
- The potential impact on compliance costs and investment.
- Transitional issues and how to manage these.

The OTS is interested in receiving direct input from businesses as well as from representative groups and professional bodies. They ask for comments to be submitted by 30 November.

If you have any observations which you would prefer to feed into the CIOT or ATT rather than responding to the OTS directly please email atttechnical@att.org.uk or technical@ciot.org.uk as appropriate with the subject heading OTS review of capital allowances and depreciation by 15 November 2017.