

# OTS review of replacing capital allowances with depreciation: unincorporated businesses

General Features

OMB

01 December 2017

The ATT and CIOT have met with the Office of Tax Simplification (OTS) to discuss the potential impact on unincorporated businesses of replacing capital allowances with a deduction for accounting depreciation.

In its review of the corporation tax computation, 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 that review, and as reported in Technical Newsdesk of November's edition of *Tax Adviser*, the OTS released a [call for evidence](#) on 3 October 2017 as to whether using accounting depreciation to provide relief for capital expenditure would be an affordable and practical simplification for businesses and the Exchequer.

The ATT and CIOT met with the OTS on 2 November to specifically discuss the potential impact of such a change on unincorporated businesses.

The OTS outlined that their starting point is that the tax treatment of fixed assets should be closer to the accounting treatment, with the minimum of adjustments necessary. At its simplest this would mean:

- Classification of assets as capital or revenue in nature for tax purposes would follow the accounting treatment adopted;
- A deduction would be available for the accounting depreciation of any tangible asset.

This could then be overlaid, where necessary, with specific rules for assets such as cars or to incentivise the purchase of energy saving equipment.

The importance of the Annual Investment Allowance (AIA) to small and unincorporated businesses was stressed by ATT and CIOT during the meeting. The OTS indicated that a key consideration for them was how the AIA could be kept or maintained on any change. In particular, it will be necessary to consider how this can be achieved without introducing unnecessary complication.

Other issues discussed during the meeting included the practical accounting issues which small unincorporated businesses may face and the policy objectives of the current capital allowances regime.

It was agreed by all parties that any changes should apply equally to both income tax and corporation tax in order to avoid further divergence between the taxation of companies and unincorporated business forms. As an alternative, the potential to apply different methods of relief for capital expenditure to different sizes of business (regardless of their legal form) was discussed.

A further meeting between the CIOT, ATT and OTS to discuss the proposals in the context of companies is to be held on 14 November and will be covered in the next edition of *Tax Adviser*.