OTS review of replacing capital allowances with depreciation

General Features **Large Corporate** **OMB**

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

Following on from the meeting with the OTS to discuss unincorporated businesses (reported in December's Technical Newsdesk), representatives from the ATT and CIOT met again with the OTS to discuss the OTS review of replacing capital allowances with deductions for accounts depreciation, focussing on the potential impact on companies. 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, the OTS released a Call for Evidence 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 OTS highlighted that the starting point for their review is to imagine a tax treatment that follows the accounting treatment of depreciation, and then to consider what deviations from UK GAAP may be required or desired with the aim being a minimum of adjustments.

The OTS realise there is an obvious tension here – to the extent that there are aspects of the current capital allowances regime which need to be kept, or adjustments are required from the accounting position, these will affect the inherent simplicity of any such new system.

They are therefore keen to identify:

- The minimum changes to accounting depreciation that would be required to make such a system work and those aspects of the current capital allowances regime that would need to be replicated (for example, to compensate 'losers' or counteract 'winners' or continue specific incentives).
- Who the winners and losers of such a change would be.

Areas discussed during the meeting included:

- The nature of GAAP depreciation and whether this is something on which reliance can be placed, including the role of tax in influencing accounting policy, whether businesses may seek to accelerate depreciation, the reliability of GAAP figures and how HMRC may police the use of a depreciation based figure.
- What deviations may be required (or desired) to be incorporated into a depreciation based system, including the Annual Investment Allowance (AIA), the treatment of revaluations and sales of assets which have increased in value.

- Transitional issues for assets held at the date of any change over and the lead time which would be required for businesses to adapt to the change.
- What the potential impact of any change to a depreciation based system may be on different sizes of companies, specific sectors and investment more generally.

The OTS aim to publish their report in spring 2018. Following this the decision regarding the introduction of any recommended changes is not up to the OTS. However, it does not seem conceivable that any suggested changes would appear in Finance Bill 2018-19, as they would be more long term in nature and the intention would be for further consultation.

Although the OTS Call for Evidence states a deadline of 30 November 2017 for comments, the OTS has said that it will continue to accept comments after this date and would welcome all input, so please do continue to send any comments or actual data/numbers of taxpayers that would be impacted to ots@ots.gsi.gov.uk.