

[Home](#) > [Money](#) > [Business tax](#) > [Capital allowances](#)  
> [Capital allowances — permanent full expensing](#)

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& Customs](#)

Policy paper

# Capital allowances — permanent full expensing for companies investing in plant and machinery

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## Contents

- Who is likely to be affected
- General description of the measure
- Policy objective
- Background to the measure
- Detailed proposal
- Summary of impacts
- Monitoring and evaluation
- Further advice



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# Who is likely to be affected

Companies within the charge to corporation tax investing in plant and machinery.

## General description of the measure

This measure will make full expensing — a 100% first-year allowance for main rate expenditure — and the associated 50% first-year allowance for special rate expenditure permanent.

## Policy objective

This measure is designed to stimulate business investment in plant and machinery by increasing the tax relief available in the accounting period in which the expenditure is incurred. The amount of expenditure that can qualify for this measure is uncapped, which means that the more that is invested, the greater the potential tax savings.

## Background to the measure

At Spring Budget 2023, the government introduced two new temporary first-year allowances. For qualifying expenditure on the provision of plant or machinery incurred on or after 1 April 2023 but before 1 April 2026, companies can claim:

- a 100% first-year allowance for main rate expenditure — known as full expensing
- a 50% first-year allowance for special rate expenditure

The government also committed to making full expensing permanent when fiscal conditions allowed. This measure makes full expensing permanent.

## Detailed proposal

## Operative date

This measure will have effect from Royal Assent to Autumn Finance Bill 2023.

## Current law

The current law for capital allowances is contained within Part 2 of the Capital Allowances Act 2001 (CAA01). The rules on first-year allowances are primarily contained within Chapter 4 Part 2 CAA01 and Sections 52-52A CAA01. Chapter 5 contains provisions on pooling, disposal events and disposal values. Chapter 17 contains various anti-avoidance provisions which apply to first-year allowances.

Main rate expenditure is qualifying expenditure on plant or machinery that is not special rate. Special rate expenditure is listed in Section 104A CAA01 and includes, but is not limited to, thermal insulation, integral features and long-life asset expenditure.

The current law for full expensing is contained within Section 7 Finance (No.2) Act 2023, which treats certain provisions as having been inserted into Part 2 of CAA01.

## Proposed revisions

Legislation will be introduced in Autumn Finance Bill 2023 to remove the sunset date of 1 April 2026 currently contained in Section 7(3) Finance (No.2) Act 2023.

Following the Autumn Finance Bill 2023/24, the government will also launch a technical consultation on wider changes to further simplify the Capital Allowances Act 2001.

## Summary of impacts

### Exchequer impact (£ million)

<b>2023 to 2024</b>	<b>2024 to 2025</b>	<b>2025 to 2026</b>	<b>2026 to 2027</b>	<b>2027 to 2028</b>	<b>2028 to 2029</b>
+280	+715	-1,435	-7,545	-10,715	-10,935

These figures are set out in Table 5.1 of Autumn Statement 2023 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2023

## **Economic impact**

In their Autumn 2023 Economic and Fiscal Outlook (EFO), the Office for Budget Responsibility (OBR) estimated that the shift from temporary to permanent full expensing will increase total business investment by £14bn over the forecast period, increasing potential GDP by around 0.1% in the medium term.

## **Impact on individuals, households and families**

There is no impact on individuals as this measure only affects companies. This measure is not expected to impact on family formation, stability or breakdown.

## **Equalities impacts**

It is not expected that there will be adverse effects on any group sharing protected characteristics.

## **Impact on business including civil society organisations**

Incorporated businesses who are eligible will receive significant benefits as a result of being able to claim full expensing.

The measure is expected to have a negligible impact on the administrative burdens of an estimated 7,000 companies that incur qualifying expenditure on plant and machinery which is not already fully expensed through the annual investment allowance.

One-off costs could include familiarisation with the change and updating software to account for the reliefs being made permanent.

Continuing costs could include maintaining additional records and calculating the balancing charge on disposal. The costs could increase each year as more assets are disposed but these costs will eventually flatten out.

However, there are likely to be continued administrative savings for expenditure on which full expensing is claimed as businesses will no longer be required to maintain pools for such expenditure.

This measure is expected overall to improve business' experience of dealing with HMRC as it extends the availability of full expensing and 50% first-year allowances on a permanent basis.

The measure is expected to have no impact on civil society organisations.

## **Operational impact (£ million) (HMRC or other)**

This measure will have operational impacts on HMRC including staff resources and updates to guidance. These impacts are estimated at £2.9 million.

## **Other impacts**

Other impacts have been considered and none have been identified.

## **Monitoring and evaluation**

The measure will be monitored through information collected from tax returns and through regular communication with businesses and their representative bodies.

# Further advice

If you have any questions about this change, please contact HMRC on email:  
[contact.capitalallowances@hmrc.gov.uk](mailto:contact.capitalallowances@hmrc.gov.uk).

↑ [Back to top](#)

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