Enjoy 100% tax relief

Tax Relief

What is tax relief?

When leasing equipment a company is able to gain tax relief on 100% of their lease rentals against corporation tax.

How does this work and what is corporation tax?

Corporation tax is the tax applied to the company's profit at the end of their financial year, which is set at 19%.

For every lease rental paid the company is able to claim 19% in tax relief against the corporation tax, so the business is able to keep the cash rather than paying it to the HMRC.

Example

Company A makes **£100,000** profit in their financial year and has to pay corporation tax of 20%:

£100,000 profit <u>minus</u> 19% corporation tax = **£81,000** profit after tax.

The tax the company will have to pay is **£19,000**.

Company B also makes **£100,000** profit in their financial year and has to pay corporation tax of 19%. The company also has **£10,000** worth of lease rentals for the year:

£100,000 profit <u>minus</u> **£10,000** lease rentals = **£90,000.**

£90,000 <u>minus</u> 19% corporation tax = £17,100.

So Company A pays £19,000 in tax and Company B pays £17,100. Company B has saved £1,900 in tax.

NACFB Helping Fund UK Business

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If a company pays cash for equipment, will they still receive tax relief?

The company will receive tax relief in the form of capital allowances. When purchasing equipment a company will commonly receive a percentage of writing down allowance as a capital allowance.

What is writing down allowance?

A company can claim capital allowances on a percentage of the value of the equipment the company owns, this is called writing down allowance.

Example

If a company pays cash for a piece of equipment which costs £7,500, at the end of their first financial year, they can claim 19% in tax relief of 18% of the value of the equipment, which is as follows:

18% of £7,500 = £1,350. Of this £1,350 the company can claim 19% against their corporation tax, which is £256.50.

At the end of the second year, the tax relief they claim will be lower as the equipment has been devalued by 18%.

The new value of the equipment is £7,500 minus £1,350 = £6,150.

Of this £6,150, the company can claim:

- 19% in tax relief of 18% of the value of equipment:

18% of £6,150 is £1,107. Of this £1,107 they can claim 19% against their corporation tax = £210.33.

Over a two year period, the company has gained £466.83.

Which is better, leasing or cash purchase?

The company will receive more tax relief if they lease the equipment, as shown by the calculations above.

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