SUPER-DEDUCTION – ENSURING IT STIMULATES GROWTH

Summary

1. At the 2021 Budget, the Chancellor of the Exchequer announced a "super-deduction" for expenditure on qualifying plant and machinery assets. The measure hopes to boost investment by providing an allowance of 130% on new plant and machinery investments that would normally qualify for 18% main rate writing down allowance.

2. While this measure has the potential to significantly benefit businesses, the legislation as currently drafted excludes some of the most common ways plant and machinery is used by businesses, including leasing and plant hire. We propose that changes are made to the deduction so that it benefits a much broader range of businesses.

3. **Firms acquiring assets which will then be let to customers on a short-term hire basis should be able to access the super-deduction.** For many businesses, including SMEs, acquiring plant and machinery via short-term hire firms is often the only realistic way for them to access the expensive specialist equipment they need for only the specific time it is needed. For example, 70% of construction plant & machinery is hired in[1]. The super-deduction provides no incentives for companies to do this.

4. **The super-deduction should include assets that are leased as well as those acquired by hire purchase and cash.** With considerable uncertainty about their future, many businesses will be reluctant to make large capital purchases and will want to hold onto their limited cash reserves. As a result, businesses may choose to lease their plant and machinery. In 2019 there was £904m of leasing new business written for plant and machinery assets. This investment would be ineligible for the super deduction under the current rules.

5. **The guidance should be clarified to reflect other ways of acquiring plant and machinery**, such as conditional sale or buy-back clauses. Businesses also face confusion as to whether they can benefit from the deduction if they are using a hire purchase contract to acquire plant and machinery, as the legislation imposes conditions on this.

6. The "super-deduction" has the potential to significantly benefit businesses investing in plant and machinery. With small changes, the measure can have much more significant effects stimulating economic activity, unlocking investment and improving business productivity.

[1] Construction Plant-Hire Association, 2021

Plant and Machinery Investment

7. FLA members provided new finance to businesses for investment in plant and machinery of more than £7 billion in 2019. This included almost £2.4 billion for construction equipment and £1.9 billion for agricultural equipment. The asset finance industry has continued to support business investment during the Covid-19 pandemic, with £5.9 billion of new finance provided for plant and machinery in 2020. In addition, BVRLA members lease and rent 800,000 vans and over 100,000 HGVs to UK businesses, representing 1-in-6 vans and 1-in-5 HGVs on UK roads.

Plant hire

8. In the construction industry in particular, businesses turn to short-term hire via plant hire firms. This is because certain assets may only need to be on site for very short periods of time, and many small contractors would find it too costly to own this equipment. According to the Construction Plant-Hire Association, approximately 70% of construction plant is hired in via plant hire firms.

9. Plant hire firms will often acquire plant and machinery, either through hire purchase or leasing due to the very high outright cost of the equipment and the short life of the assets. However, where an asset is acquired for leasing or hiring on to another customer, this expenditure is not eligible for the super-deduction.

10. This means that, especially in the construction industry, neither the user of the equipment, nor the purchaser, benefit from the super-deduction. Therefore, the deduction will only be beneficial in a small range of industries (see figure 1, below).

11. By enabling plant-hire firms to benefit from the deduction, these firms can increase the supply of plant and machinery they can provide to their customers, pass on cost-savings to end users, and invest in a newer and better equipment for firms to use.

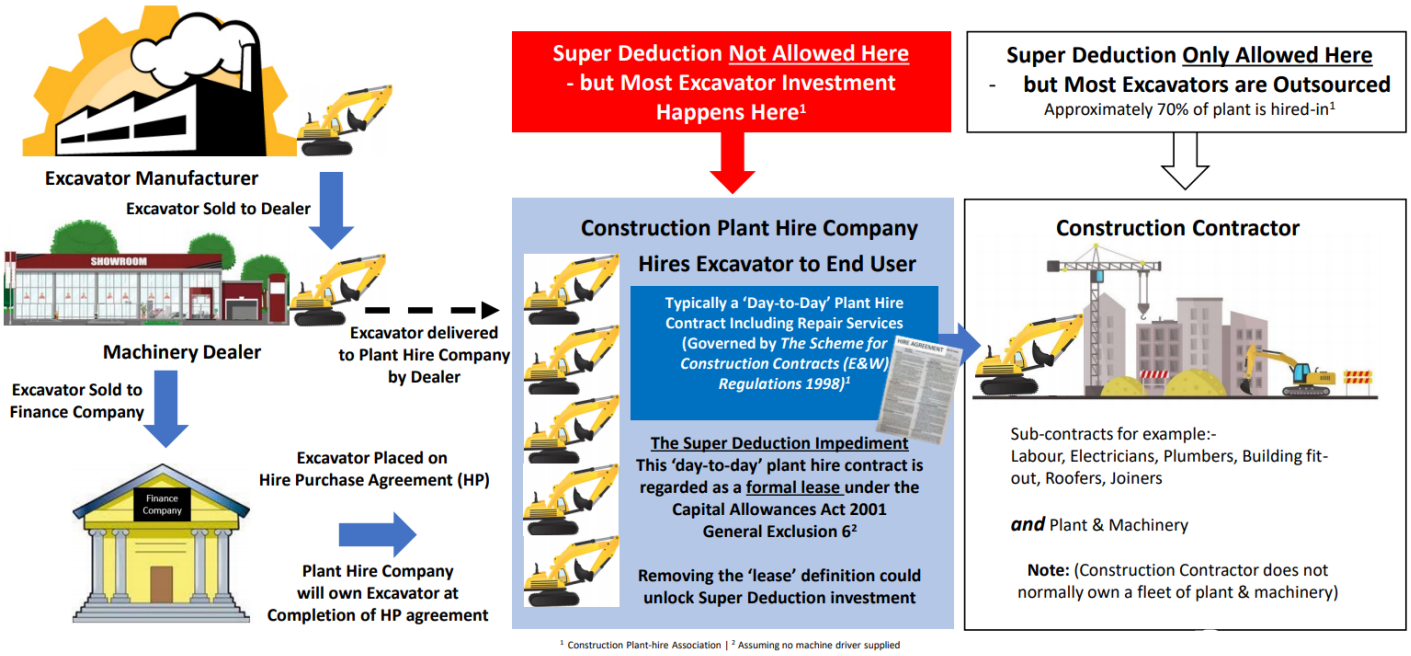

Figure 1

Leasing

12. Businesses use leasing to fund their plant and machinery requirements as these assets are often expensive or highly specialized and only needed for specific projects. Where assets need regular renewal or replacement, such as IT equipment, leasing can be particularly attractive.

13. In 2019 there was £904m of leasing new business written for plant and machinery assets. This investment would be ineligible for the super deduction under the current rules.

14. Under accounting rules, leasing is treated as capital expenditure. This recognises the true economic value of the lease to the business. The super-deduction excludes leasing from its scope as typically rental payments are classed as revenue expenditure by HMRC.

15. The intent of the super-deduction is to incentivize businesses to acquire new productive assets. By limiting its application, it may force businesses to acquire equipment in a less appropriate or less cost-effective way. This divergence of approaches also creates confusion for businesses.

16. It is likely that HMRC will wish to avoid a situation where tax relief is claimed on rental payments in addition to the super-deduction. This can be achieved with existing anti-avoidance provisions.

17. In the current economic climate, many firms do not have the funds to upgrade their van or truck fleets. Fleet renewal is hugely expensive and complex, especially so when the vehicles are used in specialist applications.

18. Through their business models leasing and rental can facilitate firms access to assets to be put to productive use, which they otherwise would not have been able to do. Currently neither leasing and rental firms nor their customers are able to take advantage of the super deduction. Only those businesses able to afford outright or hire purchase finance options can benefit. This is both distortionary and does not serve the interests of the wider economy.

19. The distortion also potentially impacts SMEs far more than larger businesses. Larger businesses will generally have greater availability of cash and or access to cheap funding, making a cash purchase or debt a viable option. Given the leasing exclusion, the businesses most able to make use of the super deduction for van and truck fleets are not those struggling to invest and in need of its support. Instead, SMEs with limited access to cash and finance, who the super deduction should be most able to assist, cannot access it as their fleet renewal requires a leasing or rental offering.

20. Leasing and rental also plays a critical role in supplying productive assets to second users. Once initial lease periods have finished, or a rental firm disposes of a vehicle these vehicles remain within the broader economy. This renewal cycle ensures there is a flow of high-quality vehicles entering into productive second lives while new investment continues to occur.

21. A typical truck will be leased for a period of six years while an owner operator may run a vehicle for twelve years. The leasing and rental business model requires the vehicle must be well maintained and enter a second productive life while the incentive for an owner operator is to minimize expenditure on the vehicle and run it for as long as possible. Incentivizing businesses away from leasing and rental will in the longer term negatively impact the productivity of the downstream users.

22. There are also considerable price differentials between low emission vans and trucks and competing internal combustion engine (ICE) product. These price differentials can easily be in excess of 80% for commercial vehicles. Making outright and hire purchase very difficult for businesses. Leasing and rental were able to make the whole life cost equations of clean vehicles compete with ICE purchase options. The super deduction has made qualifying conventional fuel products more affordable when compared to clean leased options. Given the long asset life of these vehicles the two years of the super deduction will, in some cases, lock-in a high CO_2 options for over a decade.

HP, Conditional Sale and Buy-Back

23. Where a business can use the super-deduction and is using hire-purchase to acquire the equipment, the legislation and accompanying guidance lacks clarity on what conditions must be met by the business for this to apply.

24. Conditional sale agreements are similar to hire purchase agreements. In a hire purchase (HP) agreement, the customer may exercise an option to purchase the asset or may have to complete some other specified act (such as payment of a fee). In a conditional sale contract, the customer is obliged to buy the asset outright at the end of the agreement, and no fee is typically required. The draft legislation for super deduction potentially excludes expenditure incurred under this type of contract. This is because it relies upon conditions A and B of Corporation Tax Act 2010, s.1129 for the purposes of determining entitlement. Those conditions clearly can apply to an HP contract, but, because the goods are not "bailed" to the customer, do not appear to allow for a conditional sale contract.

25. Some finance agreements include a "buy back" provision for either the lessor or supplier, where in certain circumstances the lessor or supplier agrees to purchase the asset for a pre-agreed price. The application of the deduction in such scenarios is unclear.

Existing allowances: Annual Investment Allowance

26. Whilst businesses currently benefit from the temporarily increased limit of the Annual Investment Allowance (AIA) of £1 million, this is unlikely to provide any benefit for leased assets or assets on short-term hire. This is because the customer cannot draw on the AIA where there is no intention to purchase the asset.

27. Further, where the lessor or hire company has spent more than £1 million (£200,000 from 2022), they will be unable to claim the allowance and thus unable to pass this saving down the supply chain via the rental costs. It is common for lessors and short-term hire firms to spend far in excess of this amount given the nature of their business and the propensity for businesses to lease, rather than buy, expensive equipment. Extending the super-deduction would allow customers to benefit directly in this scenario.

Recommendations

28. The super-deduction should include assets that are leased as well as those acquired by hire purchase and cash.

29. Firms acquiring assets which will then be let to customers on a short-term hire basis should be able to access the super-deduction.

30. The guidance should be clarified to reflect other ways of acquiring plant and machinery, such as conditional sale or buy-back clauses.

About the FLA

The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance providers of leasing and hire purchase. In 2020, FLA members provided £113 billion of new finance to UK businesses and households, £37 billion of which helped consumers and businesses buy new and used cars, including over 91% of private car registrations. £86 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £27 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing over a third of the UK investment in machinery, equipment and purchased software in the UK last year.

About the BVRLA

The BVRLA represents over 970 companies engaged in vehicle rental, leasing and fleet management. Our membership is responsible for a combined fleet of four million cars, vans and trucks – one-in-ten of all vehicles on UK roads.

BVRLA members represent the demand-side of the automotive industry, buying around 50% of new vehicles, including over 80% of those manufactured and sold in the UK. In doing so, they support almost 500,000 jobs, add £7.6bn in tax revenues and contribute £49bn to the UK economy each year.

Together with our members, the association works with policymakers, public sector agencies, regulators, and other key stakeholders to ensure that road transport delivers environmental, social and economic benefits to everyone. BVRLA members are leading the charge to decarbonise road transport and are set to register 400,000 new battery electric cars and vans per year by 2025.

BVRLA membership provides customers with the reassurance that the company they are dealing with adheres to the highest standards of professionalism and fairness.

The association achieves this by reinforcing industry standards and regulatory compliance via its mandatory Codes of Conduct, inspection regime, government-approved Alternative Dispute Resolution service and an extensive range of learning and development programmes.

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