How to utilise full expensing within the Property & Construction Sector

Full expensing has now become a permanent and valuable relief within the construction sector, allowing businesses to claim a 100% first-year allowance on the cost of qualifying plant and machinery. This support towards heavy investment significantly helps the industry's financial efficiency and growth, however construction groups need to review their operations to ensure eligibility for the relief is maximised.

What does full expensing mean for construction companies?

Construction companies can now accelerate their tax relief claims on qualifying assets in the year they are acquired, rather than spreading the relief over multiple years. For businesses with high capital expenditure this relief can significantly enhance cashflow, as shown below:

Current position for full expense eligibility:

- A 100% first-year capital allowance is available on qualifying plant and machinery, such as fork-lift trucks, diggers and cranes, etc. There is also a 50% first-year allowance for expenditure on qualifying integral features, which broadly comprise fixtures within buildings. These allowances are available without any cap or limit.

- For companies that pay corporation tax at the full rate, the cost of buying plant and machinery is reduced by 25% within the year it is purchased. However, this benefit only applies to plant and machinery equipment acquired for company use, and not purchased to be leased out.

- Construction groups often separate valuable plant and machinery ownership from construction activities to mitigate commercial risk and isolate asset ownership. Under this structure, the construction company pays the plant-owning company a fee for using the equipment. Whilst commercially sensible, this structure can disqualify the plant-owning company from claiming full expensing because it is effectively leasing the equipment to the construction company.

Plant-owning companies that lease equipment to other group companies may still be eligible to claim full expensing if the plant is supplied together with an operator. This is because the supply of equipment with an operator is considered a service, not a lease. As a result of this, construction groups need to ensure that operators are employed by the plant-owning company, and that the machinery is only supplied to the construction company with the relevant operator as part of a complete service.

Potential legislative shift under labour Government:

Former Conservative Chancellor, Jeremy Hunt, announced in his 2024 Spring Budget to expect draft legislation which extends full expensing to assets used for leasing when fiscal conditions allow. However, at this current time it is unclear that the new Labour Government will approve the legislation as they are yet to provide an update on the proposal.

Conclusion

Given the current position for full expensing eligibility, construction companies should review their business structures to ensure that qualifying plant bought within a group is not treated as being used for leasing. Correctly structuring the acquisition and use of plant and machinery can have significant cash flow benefits where full expensing is available.

Author:
Rebecca Wilkinson
Partner • Business Tax