UK Capital Allowances

New Developments to Boost Investor Certainty

The UK government relies on substantial private sector investment to deliver major infrastructure projects of national importance. Given their commitment of capital and assumption of development risk, investors regularly highlight the importance of certainty in the local tax regime in supporting confidence in the projected financial outcomes of their investments. However, due to the mechanism of the regime, its application to larger assets and new technologies being developed, uncertainties exist in both the amount and timing of tax relief available. Without such certainty, projects risk facing delays, or in some cases, may not proceed at all.

As investors embark on complex and intricate capital projects, it's essential to take steps to mitigate and manage potential uncertainties from the outset. Addressing tax depreciation considerations early on can support a clearer understanding of the opportunities and risks associated with capital allowances tax relief. This will help maximise tax relief, minimise risk, optimise investment strategies, unlock investment potential and drive long-term business success.

Navigating the UK capital allowances regime can be complex. What are the key factors contributing to uncertainty around the amount and timing of tax relief available to businesses? With recent developments, including court rulings and government policy announcements, do these help to provide greater clarity and confidence to investors and taxpayers?

What Is Capital Allowances Tax Relief?

When businesses incur expenditure on assets such as plant, machinery or infrastructure, these costs can typically be deducted from taxable profits at a prescribed rate and timing - reducing the corporate income tax due. This mechanism, known as capital allowances, helps to preserve cash flow during the early years of a project, which is particularly critical when deploying investment at a significant scale.

While the underlying concept is straight forward, the application is often challenging, especially for the larger and complex development projects. Multiple rates of tax relief exist and determining the appropriate rate for each asset type and expenditure requires careful analysis and expertise.

Funders and operators alike expect investments to deliver acceptable returns within defined risk parameters. For large-scale capital developments such as renewable energy projects, the availability, timing and certainty of tax relief can materially affect a project's commercial viability.

From the Exchequer's perspective, such relief defers, and in some cases may reduce, the revenue generated from business taxes. As a result, HM Revenue & Customs ("HMRC") applies a high level of scrutiny to capital allowances claims, particularly given the scale of potential tax revenue involved.[1]

Why Do Differing Interpretations Exist?

UK tax relief for business assets has origins dating back to the 1800's, developing incrementally into a patchwork of rules and regimes. Over time, the introduction of new technologies and asset types has continually sparked debate over what expenditure qualifies for relief and when it can be claimed, but there is no definitive list of qualifying assets. Instead businesses must rely on a combination of tax legislation and case law to determine the correct treatment, often requiring careful interpretation and judgment to navigate grey areas and evolving precedent.

Is There More Certainty and Confidence on the Horizon?

Over the past decade, a number of capital allowances cases have progressed through the UK courts with several reaching, or expected to reach, the Supreme Court.[2] These cases are helping to clarify longstanding uncertainties surrounding the tax treatment of expenditure on business assets.

Two recent cases, Gunfleet Sands and Mersey Docks, have been particularly influential. Both decisions were found in favour of the taxpayers and support a broader interpretation of the phrase "on the provision of" plant and machinery, specifically in the context of pre-construction and infrastructure-related expenditure.

HMRC has been granted leave to appeal the Gunfleet Sands ruling to the Supreme Court, however, a final decision may not be issued until 2026.[3] Until then, the ruling stands as binding precedent for other taxpayers. In contrast, the Mersey Docks decision has not been appealed; while its status as a First-tier Tribunal judgement means the findings are not binding, it remains persuasive.[4]

There is no doubt that capital allowances cases will continue to arrive at the steps of the tribunals and courts, with each decision building further clarity.

Recent government policy also reflects a clear commitment to supporting capital investment. In the 2025 Spring Statement, the UK government reaffirmed its commitment to accelerating tax relief for qualifying expenditure.[5] Under current measures, certain assets are eligible for 100% or 50% first-year allowances, enabling businesses to claim immediate relief rather than over an extended period of 25 years or more.[6] In parallel, the continuation of the £1 million Annual Investment Allowance provides businesses with ongoing certainty, aiding in both investment planning and financial forecasting.[7]

The Government Is Listening

In March 2025, the UK government launched a consultation on "Advance Tax Certainty for Major Projects", aimed at improving tax certainty for large-scale developments by offering advance tax clearances.[8] While the initiative has been broadly welcomed, there is ongoing debate over whether it should be extended to include capital allowances and other forms of tax relief.[9]

This is particularly relevant given the divergence in interpretation and application of tax legislation between taxpayers and HMRC, especially for unique or complex projects. The outcome of the consultation will offer valuable insight into business appetite for such measures and signal the government's broader approach to encouraging long-term investment.

Separately, over the past 12 months HM Treasury and HMRC have engaged with businesses and capital allowances advisors to explore how guidance within HMRC's Capital Allowances Manual could be enhanced to bring more clarity to the regime's operation.[10]

In an update shared with the Chartered Institute of Taxation, HMRC noted that feedback revealed that much of "the uncertainty was an outcome of the principles-based nature of the legislation rather than a deficiency of guidance".[11] While suggestions for policy changes were outside the scope of the consultation, some were put forward during the process.

In response, HMRC has implemented a number of updates, including revisions to outdated references and improvements to guidance on the interaction between different types of allowances, as well as the treatment of software, second-hand assets, and long-life assets.[12]

Further updates have also been made to guidance relevant to Real Estate Investment Trusts ("REITs") claiming first-year allowances and the fixtures rules. These now include additional examples of items commonly regarded as fixtures or chattels, along

with more detailed guidance on the information required in a section 198 election, which facilitates the transfer of capital allowances during a property transaction.[13]

While not all suggestions have yet been implemented, HMRC has indicated that it is continuing to review additional areas and remains committed to improving further the clarity and usability of its guidance.[14]

These developments indicate that HMRC is trying to understand what is important to taxpayers and investors. However, in reality the impact of the changes made so far will have limited reach and we will have to wait and see whether HMRC will take on board suggestions made for further improvements to the regime.

Will Certainty Ever Exist?

While no framework can fully cover every future innovation or development, each court ruling and targeted policy measure helps to make the capital allowances regime progressively more predictable. Although absolute certainty may remain elusive, these developments provide investors with increasing clarity and confidence in the treatment of capital expenditure and an indication that the government is listening.

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Endnotes

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