



100% deductible

How full expensing will accelerate asset finance sector growth



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With the UK economy continuing to present challenging operating conditions at the point when the government's super-deduction scheme ended in March last year, it was no surprise that the Chancellor's Autumn Statement made full expensing permanent for businesses investing in new IT equipment, plant and machinery. It's a real boost for SMEs as they are now able to deduct the full cost of assets like machinery from their taxable income.

The benefits of full expensing are twofold. Firstly, it enhances cashflow for businesses, as the immediate deduction reduces their tax liability. Secondly, the policy serves as a catalyst for increased working capital to finance future expansion, innovate or tackle some of the day-to-day operational challenges many firms still face.

With asset finance integral to facilitating full expensing, brokers are going to play a key role in helping their clients maximise the opportunity and acquire the type of assets that can propel their business forward.

We envisage it will help a wide range of sectors, given that it will provide tax relief on commercial vehicles and warehousing equipment such as forklift trucks through to IT equipment and excavators used in construction.

It does need highlighting that super-deduction was a response to the pandemic and allowed companies to deduct 130% of the cost of capital purchases in the year they occurred and in one go. Full expensing works the same, but it is limited to 100% of the cost of the purchased assets, so some SMEs need to factor this in when planning ahead and forecasting how they aim to capitalise on this

latest government initiative. Confidence amongst a lot of businesses is still very low and there remains several major barriers – other than tax – for those looking to achieve growth in the year ahead. In order for many companies to move forward and expand, there should be targeted measures that address their needs at each stage of the business lifecycle.

Whilst this tax relief will help some, there are many British companies whose main concern is just trying to survive and keep going, and not investing in new CapEx (capital expenditure) projects. For these businesses, the concern around the ease and speed of borrowing money continues to be a significant growth barrier, with many lenders' credit appetites diminishing in the challenging economic climate. This is all at a time when traditional high street banks are less likely to lend and additional working capital is needed most.

This should not overshadow the many benefits full expensing will bring. It will provide a terrific boost for SMEs operating across a range of sectors and present an opportunity for growth that shouldn't be underestimated in this period of instability. The emphasis is now on brokers and asset finance lenders to guide clients on how to capitalise from it and rebuild confidence after a challenging 2023. ●



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