



WHAT IS CAPITAL ALLOWANCES?

Businesses and Individuals can claim tax allowances, on certain assets acquired and used in earning their

income. These allowances are given for income tax purposes instead of depreciation for the wear and tear of particular assets. This means you can deduct a portion of the cost from your taxable profit and reduce your tax obligations.

There are five (5) types of Capital Allowances :

- **Investment Allowances:** This is given in place of an Initial Allowance to some types of expenditure.
- **Initial Allowances:** This is given for one year only, the year of purchase.
- **Annual Allowances:** Is given year by year as long as the asset continues to be used for the purpose of the taxpayer business until the capital expenditure is written off.
- **Balancing Allowances:** May be given when the Asset is sold or ceases to exist.
- **Balancing Charges:** May be taken back when the asset is sold. These allowances are designed to ensure that over the life of the asset the total allowed by way of Initial and Annual Allowance does not exceed the original cost less the selling price on disposal.

CATEGORIES OF CAPITAL ALLOWANCES

Capital Allowances may be applied to an Asset over three(3) stages of its life.

Stage 1. Acquisition: When asset is purchased it may qualify for **INITIAL OR INVESTMENT ALLOWANCE**.

Stage 2. Period of Use: An Asset which was in use during the year of Assessment qualifies for **ANNUAL ALLOWANCE**.

Stage 3 . Disposal: Sale or disposal of an Asset may qualify for **BALANCING ALLOWANCE** or **BALANCING CHARGE**.

TYPES OF EXPENDITURES THAT QUALIFY FOR RELIEF ARE:

- Industrial Buildings and Structures
- Non-residential Buildings
- Plant & Machinery
- Mines, Oil Wells, etc.
- Scientific Research
- Patents



SOME NON-QUALIFYING INDUSTRIAL BUILDING

- ▶ No Initial allowances are to be given for any building which is used as:
 - an office
 - retail shop
 - showroom

▶ Where a part only of the whole of a building comes within the above categories and the cost of constructing that part does not exceed ten percent (10 %) of the cost of the whole, the whole of the building qualifies (provided of course, that the trade qualifies) example where a building is used in a qualifying trade half as a workshop and half as an office, the half in use as workshop is an 'an industrial building' the other half is not.

▶ Items that do not depreciate or suffer wear and tear cannot be given Capital Allowance, they have infinite useful life. Example land



QUESTIONS & ANSWERS

- Q.** A person bought a motor vehicle for personal use and starts to use it as a taxi for a part of the following year. Can the person claim Initial Allowance in the year that they started to operate as a taxi ?
- A.** Initial Allowance can only be claimed in the year of purchase, furthermore no initial allowance is granted in respect of motor vehicles however the Annual allowance can be prorated if the motor vehicle is only in use for a part of the Year of Assessment.
- Q.** I received an industrial machine as a gift, can I claim Capital Allowance?
- A.** Capital Allowance cannot be claimed on assets that are 'gifts', because no expenditure was incurred.