01 / THE THREE NUMBERS

Buying equipment: cash, VAT and tax relief.

A loan changes when you pay. It does not turn every repayment into a deductible expense.

Start with these questions

1. Does the business need it? Check the full cost and private use.
2. Who buys it? The contract and invoice should identify the correct business.
3. How will it be paid for? Cash, a loan, hire purchase or rental.
4. Which tax rules apply? Company accounts and sole-trader cash-basis rules differ.

What is a capital allowance?

It is a tax deduction for qualifying equipment kept for use in the business. Companies and sole traders using traditional accounts normally use these rules, rather than deducting the whole purchase as a running cost.

The **Annual Investment Allowance (AIA)** can give 100% relief on most qualifying plant and machinery within the available £1 million limit. It does not cover cars. Short periods and related businesses can affect the limit.

A sole trader using the cash basis normally deducts qualifying equipment when paid, rather than claiming capital allowances, with different rules for cars. Do not apply company rules automatically.

Example: a business machine

Cash purchase by a company	Amount
Machine price before VAT	£12,000
VAT at 20%	£2,400
Cash paid to supplier	**£14,400**
Eligible VAT reclaimed	£2,400
AIA deduction from taxable profit	£12,000
Corporation Tax saving at 25%	£3,000
Cost after those two tax effects	**£9,000**

Assumes full business use, normal VAT accounting and full recovery, enough AIA and taxable profits, and 25% relief on the whole deduction. Excludes running costs, finance, resale value and timing of tax payments.

DO NOT SPEND £12,000 JUST TO SAVE £3,000

You still have a £9,000 cost after tax in this example. The £2,400 VAT claim and £3,000 profit-tax saving are different things.

CHECK THE RULES Equipment and ownership · Annual Investment Allowance · Sole-trader equipment · Cash-basis income and expenses · Reclaiming purchase VAT · Corporation Tax rates

02 / COMPARE THE AGREEMENT

The same monthly payment can buy different things.

Illustrative options for the same £12,000 machine. These are not finance quotes or product recommendations.

Compare over 24 months	Buy outright	Hire purchase (HP)	Ordinary rental
Payments before recoverable VAT	**£12,000 once**	**24 × £550 = £13,200**	**24 × £450 = £10,800**
Of which finance interest	None	£1,200 total	Not a purchase loan
First 12 months before recoverable VAT	£12,000	£6,600	£5,400
VAT in this illustration	£2,400 upfront	£2,400 upfront on goods	£90 on each monthly rental
Own the machine after 24 months?	**Yes**	**Yes, after final payment**	**No; return it under the terms**

Assumes 24 monthly payments starting in month 1, no deposit, balloon, purchase-option fee, maintenance package or other fees. Only recoverable VAT is excluded from cost. Real agreements and residual values must be compared.

Hire purchase is not ordinary rent

For a company or traditional accounts, qualifying HP can receive capital-allowance relief on the **capital price when the machine is brought into use**, even with instalments unpaid. Interest is separate. Cash-basis rules differ.

Do not also deduct all later repayments. The principal repays the purchase funding; the interest is the finance cost. Send the full agreement, not just the bank payments.

VAT and leasing checks

With HP, VAT on the goods is normally dealt with at the start, not spread over repayments. A valid VAT invoice is needed, even if you use VAT Cash Accounting. Ordinary rental VAT follows the rental invoices/payments and your VAT method.

For ordinary business hire, tax relief generally follows rental costs under the applicable rules. Long funding leases and purchase options can change this. The accounting presentation may also differ from the tax calculation.

A BANK LOAN IS SEPARATE FROM THE MACHINE

Borrowing £12,000 is not sales income. Repaying the £12,000 loan principal is not a second expense. The machine receives its own tax treatment; qualifying loan interest is dealt with separately.

CHECK THE RULES Purchase and hire-purchase timing · Hire-purchase VAT timing · Instalments and VAT · VAT Cash Accounting exclusions · Interest and finance costs

03 / BEFORE YOU SIGN

Send the quote before the money leaves.

A short equipment check helps us confirm ownership, VAT, tax timing and the cash commitment.

Questions to settle first

Business and use: which company or sole trade buys it, and any private use?
Agreement: purchase, hire purchase, ordinary rental or another lease?
Full cost: deposit, repayments, interest, fees and final payment?
Ownership: who owns it at the end, and what is it likely to be worth?
VAT: correctly charged, recoverable and due when?

Four common traps

A quote is not always a deduction. Purchase timing and when payment becomes due matter.
Depreciation is not the tax claim. The accounts' wear-and-tear charge is usually replaced by tax allowances.
Used equipment can qualify for AIA. It does not have to be brand new.
Selling later can affect tax. Tell us the sale/trade-in value and whether VAT was charged.

Purchase and finance worksheet

Item / supplier	Buyer / business use	Purchase or hire price	VAT and initial cash	Repayments / final payment	Ownership / start date
Workshop machine (demo)	Company / 100%	£12,000 + VAT	£2,400 upfront under HP	24 × £550 / no balloon	Own after HP / [date]

Attach: quote, proposed agreement, repayment/interest schedule, expected delivery and first-use date. Once purchased, send the final invoice and any sale or trade-in details.

This pack covers ordinary business equipment. Cars, property, fixtures, pre-owned personal assets, private use and unusual leases need separate checks. It is tax information, not a recommendation to borrow or buy a finance product.

Contact our office or your account manager. info@sbxaccountants.com | 020 7046 1730

CHECK THE RULES Annual Investment Allowance · Equipment and ownership · Purchase and hire-purchase timing · Sole-trader equipment · Reclaiming purchase VAT