



Depreciation Allowances

for periods of account starting on or after 1 January 2021

1. Introduction

This is a brief guide to Depreciation Allowances (DA) in the Falkland Islands (FI). This guide has been written in general terms, it does not have any legal force or bind the FI Government Taxation Office in any way. It should be read in conjunction with the Taxes Ordinance 1997 (TO).

Readers familiar to the UK tax system may notice some similarities in the FI legislation. However, there are differences, both of substance and in drafting and it is best therefore to treat the FI system as a totally different regime.

2. What are Depreciation Allowances?

DA provide an allowance against expenditure on certain capital items. There is no direct deduction allowed in the business accounts for tax purposes in relation to capital expenditure.

DA can only be claimed by businesses whether this is a sole trader, partnership or a company. The asset that is acquired or enhanced must be used or intended to be used for the business in order to qualify for DA. If an asset is purchased on hire purchase it qualifies for DA based on the original cost. Any associated interest charges may be claimed as a business expense.

There are a number of categories that fall within the DA regime and these will be covered below.

3. What can qualify for Depreciation Allowances and at what rate?

The below assets can qualify for DA although it is worth noting that there are some exceptions which need to be considered and brief details are provided later in this guide. The legislation which covers DA can be found from s105 TO onwards.

If an asset is £500 or less and would have qualified for DA then a revenue deduction can be claimed under s97A(eb) TO.

Asset	Maximum rate per year	Depreciation Method	Pooled	Note
Plant, Machinery, Renewable Energy Technology and Vehicles	40%	Reducing balance	Yes	1
Ships	20%	Straight Line	No	2
Buildings (not in camp)	10%	Straight Line	No	3
Buildings (in camp, excluding farmhouses)	25%	Straight Line	No	3
Farmhouses	10%	Straight Line	No	3
Car parks, hard standings and consolidated laydown	5%	Straight Line	No	
Roads	5%	Straight Line	No	4
Jetty	5%	Straight Line	No	

Note	
1	Plant and Machinery includes aircraft, fencing, office equipment, tools and equipment etc.
2	A ship includes every description of vessel used in navigation not exclusively propelled by oars.
3	Buildings includes industrial, commercial, agricultural, mining, fishing and hotel buildings. There are strict rules on when DAs are allowed on residential accommodation. Please refer to the legislation.
4	Expenditure incurred in constructing or enhancing the road is limited to £100,000 per km.

4. What does not qualify for Depreciation Allowances?

DA cannot be claimed for land, livestock, revenue expenses and capital expenses of a private or domestic nature.

Overseas residential properties do not qualify for DA, however a 10% deduction of the gross income is allowed for wear and tear. For further information please refer to the tax guide 'Residential Letting Outside the Falkland Islands'.

Revenue expenditure, for example repair or maintenance of a vehicle, does not qualify for DA. It may qualify as a revenue deduction. If an asset cost £500 or less a revenue deduction can be claimed under s97A(eb).

If an asset which falls within the DA regime has a dual purpose, for example a vehicle is used partly for private use and partly for business use, the asset's value need to be apportioned to give relief only on the business element.

5. How do I make a claim for Depreciation Allowances?

When you submit your accounts to our office you should also submit a list showing what DA you wish to claim. The information we require is:

- Description of the asset
- Date of purchase or enhancement
- Cost of purchase or enhancement
- Whether or not there is private use, if so how much
- How much DA you wish to claim (up to the maximum allowed).

Businesses should submit a tax computation with their accounts. A tax computation is a useful way to show how DAs are reconciled with the profits shown in the accounts and the taxable profits (adjusted profits shown on your tax return). There may be a difference between the accounting depreciation and DA allowed for tax, any adjustments for the difference should be shown on the tax computation.

6. How are Depreciation Allowances calculated?

DA are calculated by reference to the original cost or value. The calculation will depend on whether it is a straight line method or reducing balance method.

WDA—is the allowance that can be claimed. WDV is the value of the asset once the allowance has been taken off each year.

a. Straight line method

A ship is purchased for £75,000, this will qualify for a maximum allowance of 20%. If the maximum of 20% is claimed it is £15,000 (WDA).

Year	Purchase cost	WDV b/f	WDA	WDV c/f
1	75,000		15,000	60,000
2		60,000	15,000	45,000
3		45,000	15,000	30,000

This would continue until the amount is reduced to 0.

b. Reducing balance method

A car is purchased for 12,500, this will qualify for a maximum allowance of 40%. If the maximum of 40% is claimed it is £5,000 (WDA) in the first year.

Year	Purchase cost	WDV b/f	WDA	WDV c/f
1	12,500		5,000	7,500
2		7,500	3,000 (7,500*40%)	4,500
3		4,500	1,800 (4,500*40%)	2,700

This would continue until the amount is reduced to 0.

7. What is 'Pooling of assets'?

The pooling of assets is only allowed for Renewable Energy Technology, Plant, Machinery and Vehicles. This is where all the assets are added together and the total is taken as the balance for the category. The 40% (if the maximum is chosen) DA is then deducted from that total.

If the pooled WDV for all Renewable Energy Technology, Plant, Machinery and Vehicles is £1,000 or less there is a rule that you can claim the full amount as the DA in the year, this will reduce the pool to zero. This stops the burden of constantly reducing the pool by 40% each year.

8. Do I have to claim Depreciation Allowances?

For tax purposes you do not have to claim DA. You may choose to claim none, whole or part of the DA for the year. If you do not claim the full amount of DA then you will have a higher WDV to carry forward to the next year.

9. Can I create a loss with Depreciation Allowances?

DA can be used to create or increase a tax loss. The rules on how the losses can be used are at s126 TO for unincorporated businesses and s128 TO for companies.

10. What happens if I sell an asset that Depreciation Allowances have been claimed for?

If you sell an asset which DA have been claimed for then you need to compare the sale figure with the WDV. If the sale price is:

- More than the WDV there will be a balancing charge, which claws back the DA given. This will increase the taxable profit.
- Less than the WDV there will be a balancing allowance. This will reduce the taxable profit.

Using the example of the ship, it is disposed of in year 2 for £65,000:

Year	Purchase cost	WDV b/f	Disposal	WDA	WDV c/f
1	75,000			15,000	60,000
2		60,000	65,000	-5000	

This will give a balancing charge of £5,000, this would be added to the businesses taxable profit.

If instead of being sold for £65,000 it had been sold for £40,000 the DA calculation would look like:

Year	Purchase cost	WDV b/f	Disposal	WDA	WDV c/f
1	75,000			15,000	60,000
2		60,000	40,000	20,000	

This will give a balancing allowance of £20,000, which would be deducted from the businesses taxable profit.

If you had a vehicle that was disposed of for £7,000 but it was part of the pooled plant and machinery pool the computation might look as follows:

Year	WDV b/f	Disposal	WDA	WDV c/f
4	34,500		13,800	20,700
5	20,700	7,000	5,480 (13,700*40%)	8,220
6	8,220		3,288 (8,220*40%)	4,932

If you have claimed DA on an asset you must tell the Tax Office when you have disposed of that asset, whether the disposal is through selling, scrapping, destruction, gifting or taking for person use etc.

11. What happens if I want to bring an asset into my business after I have been using it for private purposes for several years?

You can bring the asset into your business DA computation, but not for the original cost. It must be the value of the asset at the time it is brought into the business.

12. What happens if I wish to remove the same asset (as question 11) from the business after several years?

The value of the asset will be used for the disposal value. The process will be the same as set out at question 10.

13. If a grant is given for part of the cost of the asset, do I need to make any adjustments on my DA computation?

The grant will not be declared as income and the asset value will be reduced by the amount of the grant. A farmer is given a grant of £7,000 towards a tractor which cost him £30,000. The value of the tractor to be added to the DA computation will be £23,000 = £30,000 - £7,000.

14. The business owns Renewable Energy Technology that cost over £50,000, how do we treat it?

The first £50,000 of renewable energy technology may be eligible for relief under s97E TO.

Any expense above £50,000 may fall within the DA regime. The DA would need to be claimed and the technology would be included in the Plant, Machinery and Vehicles DA pool.

15. What do I don't understand DA or what documents to submit?

We would advise you to speak to your agent and if you don't have an agent to seek advice from an agent. A list of agents can be found on our website.

Contact details

If you need to speak to the Tax Office regarding DA you can contact us on:

Telephone: +500 28470

Email: general@taxation.gov.fk

Address: FIG Taxation Office, St Mary's Walk, Stanley, Falkland Islands. FIQQ 1ZZ.

Public opening hours: Monday to Friday 9am to 12noon (afternoon appointments by prior arrangement).
