INVESTMENT ALLOWANCES

Investment allowance are allowable deduction granted on capital expenditure to acquire assets that are utilized by a business to generate taxable income.

Are granted as compensation for the loss in value of assets repeatedly used in a business, are granted on straight line basis.
The allowance is expressed as a percentage of the aggregate value of assets. The machinery or assets are categorized according to rates as follows:

25%

- ✓ Heavy and Self propelling earth moving machinery e.g., caterpillars, tractors, Lorries, buses, mobile cranes, combine harvesters, track engines, forklift e.t.c.
- ✓ Other self – propelling earth moving machines e.g., Motorbikes, tuk-tuk, Motor vehicles, cars, minibuses, delivery vans, pickups etc.
- ✓ Office electronics e.g. computers, printers, scanners, calculators, duplicating machines, ETR, computer software, photocopiers etc.

10%

Other machinery and equipment e.g. furniture and fittings, milking machines, carpets, curtains, partitions, neon signs, signboards, billboards, non- processing machines, advertising stands, etc.

COMPUTATION OF INVESTMENT ALLOWANCE

When calculating investment allowance begin with the cost balance of assets not fully claimed any additional asset acquired during the year are added, disposal of assets deducted to determine the value of net assets which are subjected to relevant rate as follow:

	25%	10%
Cost bal. b/f 1/01/2020	XXX	XXX
Additional	Xxx	Xxxx
Disposal	(xxx)	(xxx)
Net asset	Xxx	Xxxx
WTA	(xxx)	(xxx)
WDV 31/12/2020	XXX	XXX

ADDITIONAL OF ASSETS DURING THE YEAR

Where additional assets are acquired during the year, the qualifying cost include:

- ✓ Purchase price of an asset
- ✓ Incidental cost incurred before machinery is installed and used such costs are capitalized i.e., added to the cost of machinery e.g. custom duty, and VAT paid on imported machinery, insurance in transit, installation cost etc.
- ✓ Incase an asset is traded in or partly exchanged for a new one the qualifying cost for the new asset is the trade- in value of the old asset plus additional cash if any.

- ✓ If an asset is acquired through hire purchase the qualifying cost for WTA is the cash price
- ✓ Commercial and non-commercial vehicles

A commercial vehicle is one that is: Designed for the carriage of goods and its used for that purpose e.g. van/pickup

Vehicles used for car hire services such as taxis, car hire services.

A vehicle used for public transport.

Any vehicle that falls outside the above definition is a non-commercial vehicle whose qualifying cost for WTA purposes is restricted as follows

Year of purchase	Restricted qualifying cost
1990 - 96	100,000
1997	500,000
1998 - 2005	1000,000
2006 - 2010	2,000,000
2020	3,000,000

Disposal of assets during the year,

Where assets are disposed off during the year, the qualifying cost for WTA includes;

- ✓ The sales proceeds of the asset.
- ✓ In case of trade-in, the qualifying cost for WTA is the is the trade- in value of the old asset
- ✓ If an asset is destroyed by accident or is stolen and the insurance compensation is received, the qualifying disposal value is the insurance compensation.
- ✓ Where a non-commercial vehicle is disposed, the disposal value is restricted if the purchase price had been restricted, the disposal value is calculated as follows:

$$\frac{\text{Sales proceeds}}{\text{Cost}} \times \text{Restricted value of the year of purchase}$$

- ✓ Where an asset is disposed of at a value higher than the written down value of the asset the surplus/gain is called a trading receipt, if a business is a going concern or balancing charge if the business is under liquidation.
- ✓ Where assets are disposed off at a value lower than the written down value, the loss/ deficit is called a trading loss, if a business is going concern and a balancing deduction if a business is under liquidation.
- ✓ A trading loss/balancing deduction are allowable expenses against taxable income.
- ✓ A trading receipt/balancing charge are taxable business gains.

INVESTMENT ALLOWANCE ON BUILDING AND MACHINARY USED FOR MANUFACTURING

Its an allowance granted to an investor who incurs capital expenditure on an industrial building and machines used for the purpose of manufacture.

The Rates; 50% in the first year of use of the assets and the residual value to be claimed at 25% on reducing balance in subsequent years.

QUALIFYING COST

- ✓ The cost of building used for the purpose of manufacture.

Costs of machines used for the purpose of manufacture e.g., processing machines, milling machines, weighing machines, packaging machines, conveyor belts etc.

Cost incidental to acquisition of machines e.g., installation cost, transport, loading charges etc.

Cost of workshop machines used to repair industrial machines.

Purchase of machinery used for auxiliary purposes e.g.

- ✓ Generation and transformation and distribution of electricity.
- ✓ Machinery for clean -up and disposed of affluent and other waste products.
- ✓ Machinery for reduction of environmental damage e.g., sound silencers and air filters
- ✓ Machinery for water supply and disposal e.g., water pumps, water tank and bore hole.
- ✓ Civil works like roads, parking areas, railway lines, security walls fencing and drainage system.
- ✓ Communication & electrical and other electricity supply and works.
- ✓ Hotel buildings.
- ✓ Petroleum or gas storage facilities.
- ✓ Hospital buildings.
- ✓ Hospital equipment's.
- ✓ Ships or aircrafts.

N/B:

- ✓ An industrial building, which qualifies for ID, must be new which means it must not have been used for any other purpose.
- ✓ Machinery qualifies for ID whether it is new or old provided non has been claimed.
- ✓ Where non –qualifying cost are included in the cost of an industrial building that qualifies for ID such cost also qualifies if the proportions to the total cost is 10% or less.

Illustration: HZ limited constructed a factory at a cost of sh. 10 million. The construction cost compromised of-

	Sh."000"
Cost of land	**2,000**
Cost of office	**600**
Show room	**300**
Factory **Determine the qualifying cost for ID.**	**7,100** **10M**
Solution: non- qualifying cost:Cost of office + show room	**900**

Proportions of non - qualifying cost$=\frac{nonqualifying\ cost}{total\ cost}\times 100\%$

$\frac{900}{(900+7100)} \times 100 = 11.25\%$ > Than 10%

Therefore: ID qualifying cost = sh. 7.1 million

- Cost of office and showroom shall not qualify for ID and also cost of land does not qualify for ID

Farm work deduction FWD

- This is a capital allowance granted to the farmer on capital expenditure incurred on construction of farm works at the following rates;
  50% in the first year of use of the asset and residual value to be claimed at 25% on reducing balance in subsequent years.
- Farm works may include a farmhouse, labor quarters and any other immovable structuresthat are necessary for the operation of a farming business e.g., fences, dips, irrigation networks, sewage system, wind vanes, stores or granaries and other weather structures etc.Note: in case of a farmhouse, only 1/3rd of the construction cost qualifies for FWD since the house is utilized for both business and private purposes
- A full years FWD shall be claimed for any farm works constructed during the year irrespective of when the construction work took place if the farming business was carried on for a whole year.
- However, FWD shall be apportioned if the farming business is carried out for only part of the year.

Investment Allowance on Commercial Building

Rates for commercial building

10% claimable on straight line basis

Commercial building includes

- ✓ Office
- ✓ Showroom
- ✓ Shop
- ✓ storehouse/ warehouse
- ✓ Staff welfare buildings e.g., social halls
- ✓ Staff dwelling houses, staff clinics, swimming pools
- ✓ Education building, e.g., student hostels
- ✓ Design room

N/B: Investment allowance on commercial building are provided for on prorate basis i.e., proportionately to the period used during the year e.g., if used for 6 moths during the accounting year, six out of twelve will be claimed.