

deducted instead of depreciation for assets of a capital nature before arriving at the taxable profits.

Under the Income Tax Act Section 33, capital allowances are deductible in ascertaining the gains or profits of a business and emoluments of any employment or office for each charge year as wear and tear allowances over the life of an asset.

Below is an example of how capital allowances can be claimed on business gains, profits and emoluments of any employment or office.

EXAMPLE

A factory building was completed on 31st December 2016 at the cost of K200, 000 and was brought into first use on 1st January 2017. What are the capital allowances to be claimed in the next three years?

Charge year
2017

Cost of the building	K200, 000.00
Initial allowance at 10%	20,000.00
Wear and tear allowance at 5%	10,000.00
	K30, 000.00

The income tax written down value as on 31/12/2017
K170, 000.00

Charge year
2018

Wear and tear allowance at 5% on cost K10, 000.00

The income tax written down value as at 31/12/2018
K160, 000.00

Charge year
2019

Wear and tear allowance at 5% K10, 000.00

The income tax written down value as at 31/12/2019
K150, 000.00

The amounts to be allowed as deductions in the ascertainment of taxable profits would be K30, 000.00 in the first year of use and K10, 000.00 for the subsequent years.

WEAR AND TEAR ALLOWANCES PROVIDED FOR IN THE INCOME TAX ACT

The wear and tear allowances are classified below:

CAPITAL ALLOWANCES RATES FOR ASSETS

General	Type	Rates	Comment
Furniture & Fittings, Computers		25%	Used in business
Motor Vehicles –	Commercial	25%	Used in business
	Non-commercial vehicles	20%	Indirectly used in business
Plant, Machinery and Equipment		25%	
	Buildings		
	Industrial	5%	
	Commercial	2%	
	Investment allowance on industrial buildings	10%	
	Initial allowance on industrial buildings	10%	
Manufacturing, Tourism	Motor vehicles	50%	Directly used in the trade
	Plant, Machinery, Equipment	50%	
Farming	Plant, Machinery, Equipment	100%	Exclusively and directly used in farming or agro-processing (owned by the claimant and brought into use effective 1st January 2017)
	Motor vehicles	50%	Directly used in the trade
	Farm improvements	100%	Definition: Fifth schedule, Part I, Paragraph 1
Mining	Buildings, implements, machinery	100%	



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CAPITAL ALLOWANCES

INTRODUCTION

It is a general rule that in computing income or profits of a business or trade, no deduction can be made either for capital expenditure incurred or, for depreciation of assets acquired by such capital expenditure, instead capital allowances can be deducted.

What are Capital Allowances?

Capital allowances are deductions a business can claim for wear and tear of qualifying fixed assets bought and used in a trade or business.

The cost of depreciation isn't allowable for tax, therefore, capital allowances compensate for this by letting the business deduct the capital allowance from its profit before working out the tax.

Under Section 33 of the Income Tax Act, Capital Allowances are to be deducted in ascertaining the gains or profits of a business and the emoluments of any employment or office for each charge year.

Capital Allowances are claimed for wear and tear of qualifying fixed assets which include;

- Buildings
- Implements
- Plant and Machinery
- Fixtures and fittings
- Motor Vehicles and many other capital assets used in the production of income.

Capital allowances apply to both tangible capital assets and intangible ones (like the purchase of a patent, for example. In the case of intangible assets, it is called a premium allowance and it shall not exceed the amount of the premium or like consideration divided by the number of years for which the right of the use is granted (5th schedule, paragraph 14).

Do all capital items attract capital allowances?

The mere purchase of capital items does not warrant eligibility for that asset to enjoy capital allowances but according to the Income Tax Act (ITA) CAP 323, the asset must be put to use in the business.

Further, capital allowances are also granted for capital expenditure in relation to mining operations and farm improvements and works for those in the farming industry.

CAPITAL ALLOWANCES AND WEAR AND TEAR RATES

Capital allowances are to be provided for as per table below for the charge year 2021:

Details	Capital Allowances
Initial allowance for industrial building	10%
Wear and Tear allowance for industrial buildings (low cost housing)	10%
Improvement allowance (commercial and industrial buildings)	100%
Wear and tear allowance for other industrial buildings	5%
Investment allowance (1 st year of manufacturing)	10%
Wear and tear allowance for Commercial buildings	2%
Wear and tear allowance for: Implements Machinery and plant Office equipment Office furniture Commercial vehicles	25%
Wear and tear for non-commercial vehicles	20%
Plant and manufacturing (manufacturing)	50%
Farm improvement allowance	100%
Farm works allowance	100%
Development allowance	10%
Farming implements	100%
Plant and Machinery (farming)	100%

Below are the definitions of items that are covered under capital allowances:

Industrial buildings – means a building or structure in use for the purposes of any electricity, gas, water, inland navigation, transport, hydraulic power, bridge or tunnel undertaking, or any like undertaking of public utility, or is in use for the purpose of any trade which is carried on in a mill, factory or like premises;

- consists of the manufacture of goods or materials, or their subjection to any process;
- consists of the storage of goods or materials to be used in the manufacture or processing of other goods;
- consists of the storage of goods on import or for export; or
- consists in working of a mine or well for the extraction of natural deposits.

Commercial buildings – means a building or structure, or part thereof, which is not an industrial building (as defined above) or farm improvement or farm works (as defined in the Sixth Schedule of the ITA Cap 323), and which is in use for the purposes of any business.

Farm dwelling – means a permanent building, used as a dwelling (the original cost of which is taken for purposes of this part as not in excess of Twenty Thousand Kwacha), which is not used by the farmer claiming the allowance as his homestead of himself and his family.

Farm improvement – means any permanent work, including a farm dwelling and fencing appropriate to farming and any building constructed for and used for the welfare of employees, and in relation to farming land owned or occupied by the farmer claiming the allowance.

IS THERE ANY CLASSIFICATION OF EXPENDITURE IN THE INCOME TAX ACT?

Yes, expenditure is classified in two ways as follows:

- 1 Revenue expenditure;
- 2 Capital expenditure.

WHAT IS REVENUE EXPENDITURE?

Revenue expenditure is the cost incurred by a business or individual that will recur year by year. To mention a few, these are rental payments, production costs, salaries and wages, telephone bills etc.

HOW IS REVENUE EXPENDITURE TREATED IN COMPUTING INCOME OR PROFITS OF BUSINESSES?

Revenue expenditure is allowed as a deduction in ascertaining the gains or profits or emoluments of any office in the year they are incurred.

WHAT IS CAPITAL EXPENDITURE?

Capital expenditure are costs incurred in acquiring assets that are used in a business for a period of one year, or more and just to mention a few; industrial buildings, commercial buildings, computers, fixture and fittings, mining equipment.

HOW SHOULD ASSETS OF A CAPITAL NATURE BE TREATED IN THE DETERMINATION OF TAXABLE PROFITS?

Capital allowances at the rates provided are to be