



Reindustrialising Britain

**Tax Reform to Boost Capital
Investment, Productivity and Growth**



**ASSOCIATED
BRITISH PORTS**



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Mike Reader
MP for Northampton South

Britain has one of the longest and most complicated tax codes in the world. It's the product of decades of well-intentioned decisions, each trying to make the system fairer or better suited to a changing economy. Individually, most are defensible. Together, they have produced a system no one would ever have designed on purpose.

Capital allowances are one of the clearest examples. A single productive investment can find itself split across several regimes, each with its own rate and its own method of treatment. Whether you are a seasoned investor or a founder scaling a business for the first time, that cost and complexity slows investment, slows delivery and, ultimately, holds back growth.

This paper makes a serious, evidence-led contribution to the case for long-overdue reform. By setting out how the current regime evolved, how it compares internationally,

and what its complexity costs in practice, it strengthens the argument for a bolder approach. One that treats simplification as a lever for growth.

The reforms proposed here would not come without a cost to the Exchequer, and the paper is candid about that. But complexity is not free either. We pay for it every year in compliance costs, in distorted decisions, and in investment that simply never happens. We just never see the invoice.

This paper asks the right question. Not whether we can afford to simplify how Britain taxes productive investment, but rather, if we can afford not to.



Mani Atwal
CFO Associated British Ports

Britain's ability to deliver sustained economic growth depends on its ability to attract and deploy investment. That investment is not an end in itself. It is the catalyst for growth, prosperity and opportunity. A critical foundation for maximising these positive outcomes is a fiscal framework that creates the right conditions for long-term capital investment.

Nowhere is the enabling role of long-term investment clearer than in the ports sector. Ports are among the most capital-intensive and long-term orientated businesses there are. Major port infrastructure takes years to build and can take decades to generate its full return. But when this infrastructure is operational, it facilitates the trade that enables growth throughout the economy and supports jobs and prosperity in coastal communities.

Associated British Ports, as Britain's leading port operator, is prime example. We own and operate ports across Great Britain, handling around £150 billion of trade each year. To support that role, we invest strategically into our ports. Over the past five years alone, ABP has invested more than £1 billion in our infrastructure, improving the gateways through which goods flow and the bases that enable the energy transition. Our ambitions for the years ahead are greater still, if conditions are right. We are precisely the kind of long-term investor in buildings and structures that this report considers, as are many of the manufacturers, logistics operators and energy businesses that invest on our land.

The argument set out in this report matters to us for a simple reason. Businesses can write off investments in plant and machinery in full and immediately, while non-residential buildings and structures receive relief at just three per cent a year over more than three decades. For businesses whose investment is overwhelmingly tied up in infrastructure, and for the industries that rely on it, that disparity undermines the incentive to commit capital to the projects Britain needs.

The proposal advanced in this report is both practical and credible. A phased route towards full expensing for non-residential buildings recognises the realities of the public finances while providing businesses with the certainty needed to plan and invest. Crucially, it would ensure that firms are ultimately able to claim relief equal to the full value of their investment, rather than seeing that value steadily eroded by time and inflation. That would represent a meaningful improvement in the UK's investment environment and a valuable contribution to the growth agenda.

We have demonstrated our willingness to invest at scale and we are ready to do more. Getting the tax treatment of investment right will help unlock that potential – not just for ports, but for the businesses, communities and industries that depend on them.

I commend this report to policymakers and all those who share the ambition of building a more productive, competitive and prosperous United Kingdom.



Lord Harrington
Chairman of MakeUK

Reindustrialisation needs more than ambition, it needs action. Britain has long been an industrial superpower, with manufacturing accounting for nearly a tenth of our economy. It remains one of the twenty largest manufacturing nations in the world.

However, its economic influence has been on a downward trend for several years, having previously been the ninth largest manufacturing nation before the pandemic. The 10-year Industrial Strategy is the sector's best chance to return us to our glory days. We know that success can only be achieved through our collective and shared efforts and deploying every resource available to us to reach our ambitions.

The tax system, particularly incentives like capital allowances, is an important tool to influence the direction of investment and ensure we remain on the path for growth. Fortunately, our capital allowance regime has experienced somewhat of a revolution in the UK following the introduction of full expensing, with manufacturers across the nation applauding the Government's choice to back industry and investment.

However, I believe we can go further. Make UK members point out this incentive system remains complex and inefficient, despite being more generous. Manufacturers operate under conditions that require them to maximise every opportunity and minimise every cost to survive. Albeit, capital allowances allow for investment in technologies, such as software, many businesses, especially smaller ones, do not find the system sufficiently accessible to make full use of it. It is the same case for investment in upcycled or refurbished machinery that is currently excluded from full expensing.

It is clear our capital allowance system has so far moved in the right direction, and we should keep that momentum going. The UK has a great system in place to support investment and innovation, but our attractiveness for investment is only relative to the next best regime on the global stage, and we are yet to be world-beating on that front.

This paper makes a compelling case for reform and simplification that will support growth in industrial capacity. The introduction of permanent full expensing was the first step towards creating the world's best regime for capital cost recovery. Extending 100% capital allowances to structures and buildings would bring that ambition closer to completion. Additionally, introducing this policy on a glide path as recommended will limit the short-term cost to the exchequer, whilst providing ample opportunity for the sector to digest any changes and plan long-term investments.

Together with reforms that recognise manufacturers' investment needs, including software and refurbished plant and machinery, this move would send a clear signal that the UK is serious about rewarding businesses that invest in good growth.

I therefore welcome this paper and its central recommendations to bring building and structures into scope. This will widen the incentive for business investment and simplify the capital allowance system so that all businesses can take advantage of it. I hope this research helps set the foundation for doing more with our tax relief system, showing that greater generosity can deliver long-term returns.

Executive Summary

- This paper proposes extending full expensing to non-residential buildings, delivered through a permanent glide path that phases up the first-year allowance, capturing the benefit at once while spreading the cost.
- The UK relieves investment in non-residential buildings at just three per cent a year over thirty-three years. Non-residential structures and buildings are the worst-treated major investment at home, and worse treated than in most of the OECD, with the UK ranked 23rd of 38, recovering less than two fifths of the cost against an average near half.
- The existing allowance is not cheaper than full expensing, only slower: its cost is already climbing and will eventually be as costly as full expensing, about £2.8 billion a year. Even after the costs of the current system converges on what full expensing costs, the benefits it generates will remain far below the investment, productivity and wage boost full expensing will deliver.
- Economic modelling puts the long-run output gain from relieving structures at over three times that from plant and machinery. Meaning the benefits we have already seen from full expensing for plant and machinery should be dwarfed by those that will be generated by extending it to structures and buildings.
- While the immediate cost of switching to full expensing on structures and buildings is not cheap, this cost is mitigated by the glide path proposed in this paper, where the existing structures and buildings capital allowance gradually transitions into full expensing. Businesses still gain from an immediate uplift in the initial write off on new investment, but the immediate fiscal costs are much lower than switching straight to full expensing.
- This glide path captures much of the benefits of moving straight to full expensing while keeping the fiscal cost affordable, with costs of £3.8 billion over the first five years, against £12.8 billion for an immediate switch. These costs are static and do not account for any boost to tax revenues from the resulting increase in investment, growth and wages. Once the transition to full expensing is over the benefits will be identical compared to an immediate switch to full expensing.
- The current system of capital allowances is complicated, with different initial and ongoing write-down rates, and some allowances operating on a straight-line basis and others on a diminishing balance basis. Moving to full expensing for the plant and machinery, structure and building and the fixtures and fittings, will massively simplify the system and allow the whole investment to be treated as a single unit rather than spread over multiple categories.

Introduction

The United Kingdom's tax system treats a building and the machinery inside it as if they were entirely different kinds of investment. Buy the machine, and you can write off its whole cost against your profits in the year you buy it. Build the factory to house it, and you may deduct three per cent of the cost a year, for thirty-three years. By the time that relief has run its course, inflation and the passage of time have shrunk it to barely two-fifths of what the building actually cost. The United Kingdom gives less relief for investment in non-residential buildings than most developed economies, and less than it gives any other major form of investment at home. The structure is the poor relation compared to the plant and machinery housed within it. We are a country that needs more factories, laboratories and data centres but we have built a tax system that discourages them.

This distorts the most consequential investment decisions businesses in a productive economy make. The output of a modern facility depends on the building and its contents working as a single system: a production line is only as good as the floor it stands on, the power feeding it and the space around it, and a building that cannot meet those demands caps the return on everything installed within it. A tax system that relieves the contents in full but the container barely at all pushes firms towards adapting obsolete premises when the productive choice would be to build new, and it does so for the asset class on which the international evidence finds the investment response is largest.

This paper argues that the United Kingdom should extend full relief to investment in non-residential structures and buildings, putting them on the same footing as plant and machinery. The destination is full expensing. The route this paper recommends is a glide path: a phased increase in the first-year allowance, set as a permanent trajectory, that secures the investment benefit from the outset while spreading the cost to the treasury into a profile the public finances can absorb. That route is affordable for a reason that is not widely understood. Because relief on buildings is spread over more than thirty years, the existing allowance is already carrying the Exchequer towards the cost of full expensing in any case, slowly and while securing little of the benefits that full relief would unlock. The structures allowance is young, introduced only in 2018, so most of that climb is still ahead. The choice is not whether to bear the cost but whether to bear it productively, and a phased reform allows that choice to be made now at a near-term cost the Budget can carry.

The problem in a nutshell

Whether Britain gets the new factories, laboratories and warehouses that growth depends on comes down, in part, to how the tax system treats the cost of building them. At the moment it treats them surprisingly badly, and an example shows why.

Take a company making a million pounds in profit that decides to invest that million pounds back into expanding. If it spends that money on machinery, it pays no corporation tax that year at all, as it's covered by the existing system of full expensing which lets it set the full cost of the machinery against its profits straight away, wiping out its tax bill. But if instead it invests exactly the same money constructing the building to house that machinery, it can knock only three per cent off that year, thirty thousand pounds, and is still taxed on the other £970,000. Its tax bill comes to £242,500. And of course many Non-residential buildings won't contain any significant plant and machinery, for example storage facilities. In these cases the entire investment the business makes will not be eligible for the existing full expensing relief and will instead fall under a less generous allowance, principally the Structure and Building Allowance.

Same profit, same size investment, almost a quarter of a million pounds difference in tax, decided by nothing more than whether the firm invested into the machine or the building that houses the machine. Whereas a company investing in plant and machinery can set the full cost against its tax bill, the company that invests in building a new factory has to find that money somewhere. It can borrow it, or it can make a smaller investment. The nominal cost of the building is eventually recovered, but only in three per cent slices dragged out over thirty-three years, so far into the future, and so eaten away by inflation and the time value of money, that it is worth a fraction of the relief that plant and machinery get on day one.

That is the distortion this paper is about. And it matters far beyond a single company's tax bill, because a building and the machinery inside it are not really two investments but one, and a tax system that penalises the first drags down the return on the second. It is important that in general the tax system treats all productive investments the same and minimises any distortions. The UK has a long running problem of low investment and in particular low business investment. For the last few decades the UK has occupied the bottom or close to the bottom position in the G7 for business investment as a percentage of GDP.¹ Introducing full expensing for plant and machinery will have helped with this issue, but it is important that it is extended further to cover the whole of a productive investment, in particular the structure and building.

¹ Ayantola Alayande and Diane Coyle, "Investment in the UK: Longer term trends", 2023, https://www.google.com/url?q=https://www.bennettschool.cam.ac.uk/wp-content/uploads/2023/11/Investment-in-the-UK_Longer-term-trends.pdf&sa=D&source=docs&ust=1782827885584757&usq=AOvVawINE8iXW07Sg-_gKQAIqCly

The O-Ring Theory of Economic Growth

Key to the case for full expensing investment in structures and buildings (and the fixtures and fittings within) is the O-Ring theory of economic development. Developed by the economist Michael Kremer, this models production as a chain of complementary tasks whose total value depends on the quality of each link, so that one weak link drags down the return of the entire chain.² This work has subsequently been built upon and extended, with work by Charles I Jones generalising the same weak-link logic to chains of intermediate goods and complementary inputs across an economy, showing how small failures at successive stages compound into large differences in output in an economy.³

The same logic governs investment in capital assets that make up a single productive facility. It is the foundation of the case for treating an economically productive building such as a factory or a data centre as a single investment as opposed to the current situation of dividing it up into different types of investment (the structure, the fixtures and fittings, the plant and machinery).⁴ The shell of the building, the fixtures and fittings and the plant and machinery inside it are links in one chain. A modern production line installed in a shell that is too low, too weakly floored, too tightly columned or too poorly powered to take it will not yield a modern return; the building caps the productivity of everything bolted to it. A tax system that relieves the contents in full but consigns the container to a three per cent allowance distorts the allocation of capital at source, and pushes firms towards adapting obsolete buildings when the economically optimal choice would be to build new. These are the foundations of British industry, and the system taxes their renewal more heavily than almost any other form of investment.

Technological progress and thus productivity gains are embodied in new capital. This includes new plant and machinery, but it also includes new structures and fixtures and fitting. The introduction of electrical power didn't just result in investment in new electrical powered

plant and machinery, but large scale investment in new buildings including the structure and internal fixtures of those buildings in order to make more efficient use of the new technology of electrical power.⁵ In the work of Greenwood, Hercowitz and Krusell, around sixty per cent of post-war US labour-productivity growth is investment-specific, carried in new equipment and the structures designed around it rather than diffusing freely to existing buildings, tools and machinery. Additional productivity gains can only be captured by installing new capital, and this increasingly carries physical demands that an older building cannot meet.⁶

Those demands are specific and measurable, and they are the physical bottlenecks that decide whether a site can host current methods at all. A modern facility needs floors built for far heavier and more concentrated loads than older slabs were poured for, the wide column-free spans that let a production line be laid out efficiently and reconfigured as it changes, and electrical capacity and services well beyond what older premises were wired to supply. Many also need far greater clear height, most obviously in warehousing and automated storage, but equally wherever overhead handling or tall process equipment is involved. Where the building cannot provide these, it becomes the weak link in the chain, and no investment in the equipment inside can lift the return above the ceiling the building sets.⁷

² Michael Kremer, "The O-Ring Theory of Economic Development," *Quarterly Journal of Economics* 108, no. 3 (1993): 551–575.

³ Charles I. Jones, "Intermediate Goods and Weak Links in the Theory of Economic Development," *American Economic Journal: Macroeconomics* 3, no. 2 (2011): 1–28. <https://web.stanford.edu/~chadj/JonesAEJM2011.pdf>

⁴ A building's integral features and long-life plant, its electrical, heating and ventilation systems, lifts and the like, are relieved not through the structures allowance but through the capital allowances special rate pool, and a reform extending full relief to the whole building rather than the structure alone would bring them into scope as well. We do not cost that extension. The published data does not separate how new special-rate expenditure is currently divided between the 50% first-year allowance, the 6% pool and the annual investment allowance, and the cost of reform turns on that division; the additional cost would in any case be modest, because these assets already receive 50% relief in the first year. The technical annex sets out the limitation in full.

⁵ Warren Devine, "From Shafts to Wires: Historical Perspective on Electrification". *The Journal of Economic History*. 1983;43(2):347–372. doi:10.1017/S0022050700029673

⁶ Jeremy Greenwood, Zvi Hercowitz, and Per Krusell, "Long-Run Implications of Investment-Specific Technological Change," *American Economic Review* 87, no. 3 (1997): 342–362. <https://www.jstor.org/stable/2951349>

⁷ Link Logistics, "What Is Clear Height? A Guide to Warehouse Ceilings and Vertical Space," accessed June 2026. <https://www.linklogistics.com/news-insights/industrial-real-estate-101/what-is-clear-height-a-guide-to-warehouse-ceilings-and-vertical-space/>



This is why new builds so often create productivity gains compared to a retrofitted non-residential building. Building a new non-residential building lets a firm design it around current methods from the outset, allowing them to select for the most efficient layout and design. Whereas adapting an existing structure often means designing the production line around the building, which will inevitably lead to compromises and loss of efficiency.⁸ The layout of a production line is itself a first-order determinant of throughput and efficiency, so a building that dictates a less efficient layout carries a permanent productivity penalty rather than a one-off cost.⁹

The implication for tax design follows: If productivity growth is embodied in new capital investment, and the structure of a building and its contents are complementary links in one chain, then effectively penalising investment in structure and buildings (and fixtures and fitting) by treating them much less generously than investment in plant and machinery distorts capital allocation. Moving to full relief for the structure (and the fixture and fittings) removes the distortion at its source, so that firms build the facilities that are most productive rather than the ones the tax system least punishes, and it upgrades the national infrastructure pillars on which higher-productivity activity depends.

⁸ McKinsey & Company, "Smarter Growth, Lower Risk: Rethinking How New Factories Are Built," 2025. <https://www.mckinsey.com/capabilities/operations/our-insights/smarter-growth-lower-risk-rethinking-how-new-factories-are-built>

⁹ On the productivity effect of production-line layout, see Management Science 48, no. 5 (2002): 679–704. https://econpapers.repec.org/article/inmormnsc/v_3a48_3ay_3a2002_3ai_3a5_3ap_3a679-704.htm

The Current State of Investment and Capital Allowances

The UK has a long and inconsistent history of relieving investment in buildings. Capital allowances in their modern form date from 1945, when an annual rate of twenty five per cent replaced earlier “wear and tear allowances”, and from the outset there was a separate, much lower rate of two per cent for industrial buildings and structures. The Industrial Buildings Allowance (IBA) provided relief for factories, warehouses and similar structures for decades, latterly at four per cent a year. It was gradually withdrawn between 2008 and 2011 as part of a broader package, under successive Labour and Coalition governments, that broadened the corporation tax base while cutting the headline rate. Lower capital allowances raised around £2 billion in the first Coalition budgets, funding most of the initial cuts to the headline rate, in a deliberate echo of the significant Lawson reforms of the 1980s. The animating belief, articulated by Nigel Lawson and revived in the 2010s, was that investment reliefs “had no economic rationale” and that a low headline rate suited a modern, services-oriented economy better than targeted reliefs.¹⁰

The result was that, from April 2011, no capital allowances at all were available for the cost of any building or structure. For roughly seven years a business that constructed a non-residential building could not deduct any part of that cost against tax, which was widely regarded as a gap in the UK regime relative to comparable jurisdictions. Most peer economies provided some relief for structures and buildings, and it became, in HMRC’s own words, “a long-standing ask from businesses”.¹¹

The Structures and Buildings Allowance (SBA) was announced at the 2018 Budget and took effect for qualifying expenditure incurred on or after 29 October 2018, given legislative force by section 30 of the Finance Act 2019 and the Capital Allowances (Structures and Buildings Allowances) Regulations 2019. The purpose was to incentivise business investment in new, converted or renovated non-residential structures and buildings, to support growth and productivity, and to “fill a gap in the UK capital allowance regime compared to other jurisdictions” and thereby improve UK competitiveness as a place to do business.¹² Overall, this has been successful, as Britain remains a prime jurisdiction to invest in Intellectual Property (IP) and R&D, however, non-residential building investment has fallen behind.

As introduced, the SBA gave relief at two per cent per year, allowing the full cost of qualifying construction or acquisition to be relieved over 50 years. From April 2020 the rate was increased to three per cent shortening the period to 33.33 years. The allowance operates on a straight-line basis, so a £100 investment yields a deduction of £3 in each of 33.33 years. To qualify, the structure or building must be used for a qualifying activity such as a trade or property business and must not be used as a dwelling; relief begins only when the building is first brought into use.¹³

The 2019 consultation, which drew 49 written responses and around 100 stakeholders across six meetings, produced several refinements to scope: relief was extended to a proportion of shared areas, qualifying expenditure incurred before a business commences was brought into relief, and a provision that would have denied relief where a building stopped being used was removed. The Government declined, however, to extend the SBA to residential accommodation, holding that the relief was intended for non-residential rather than residential use, and it retained the requirement that businesses keep a formal statement of evidence of qualifying expenditure.¹⁴

The defining weakness of the SBA is that its design ignores both inflation and the time value of money. As the Tony Blair institute (TBI) sets out, the total cash cost of a £100 building investment is paid out as £3 per year for 33.33 years, but the present value of that stream is significantly less than £100 today. On any realistic discount rate the SBA therefore recovers only a fraction of the real cost of the investment, and the effective relief is far below the one hundred per cent that full expensing delivers for plant and machinery – by the design of the scheme, only thirty nine point one per cent of the qualifying asset’s present value is recovered.¹⁵ The Institute for Fiscal Studies (IFS) makes the same point when it observes that increasing the buildings allowance “from three per cent to one hundred per cent would clearly be a large change”, precisely because the gap between face value and present value is so wide for a 33-year straight-line allowance; it also notes that structures and buildings, including infrastructure, account for around thirty per cent of total business investment.¹⁶

¹⁰ BT Group, *Investing in the UK’s Future: The Case for Fundamental Reforms to Capital Allowances* (London: BT Group, 2023), 16.

¹¹ HM Revenue and Customs, *Explanatory Memorandum to the Capital Allowances (Structures and Buildings Allowances) Regulations 2019* (London: HM Revenue and Customs, 2019), para 7.2; Stuart Adam and Helen Miller, “Full Expensing and the Corporation Tax Base,” chap. 10 in *The IFS Green Budget: October 2023* (London: Institute for Fiscal Studies, 2023), 20.

¹² HM Revenue and Customs, *Explanatory Memorandum to the Capital Allowances (Structures and Buildings Allowances) Regulations 2019* (London: HM Revenue and Customs, 2019), paras 2.1, 6.1, 7.2.

¹³ HM Revenue and Customs, *Explanatory Memorandum to the Capital Allowances (Structures and Buildings Allowances) Regulations 2019* (London: HM Revenue and Customs, 2019), para 7.3; Stuart Adam and Helen Miller, “Full Expensing and the Corporation Tax Base,” chap. 10 in *The IFS Green Budget: October 2023* (London: Institute for Fiscal Studies, 2023), 20.

¹⁴ HM Revenue and Customs, *Explanatory Memorandum to the Capital Allowances (Structures and Buildings Allowances) Regulations 2019* (London: HM Revenue and Customs, 2019), paras 10.1–10.6.

¹⁵ James Browne, Isabel Atkinson, and Thomas Smith, *A Pro-Growth Roadmap for Business-Tax Reform* (London: Tony Blair Institute for Global Change, 2025), 12, 54–55.

¹⁶ Stuart Adam and Helen Miller, “Full Expensing and the Corporation Tax Base,” chap. 10 in *The IFS Green Budget: October 2023* (London: Institute for Fiscal Studies, 2023), 20.

Beyond the slow rate, several features of the SBA make it materially less attractive than the headline figure suggests, and these matter particularly for property and development.

- **No relief for land.** The SBA covers construction, conversion and renovation costs but not the cost of the land itself, which in high-value UK locations is often the largest single component of a development.
- **Residential property is excluded.** The relief does not assist the construction of housing, student accommodation, or the residential element of mixed-use schemes (relief on a mixed-use building is apportioned to the non-residential part on a just and reasonable basis), and there is no relief for workspaces within a domestic setting.¹⁷
- **Clawback through chargeable gains on disposal.** Unlike plant and machinery allowances, SBAs claimed during ownership are added back as additional consideration in the capital gains computation when the property is sold. In effect, relief given through the income statement is partly recovered through capital gains tax on disposal, which weakens the net benefit and complicates appraisal.¹⁸
- **Relief is deferred until the building is in use,** so there is no cash-flow benefit during the construction or fit-out period, which is exactly when a developer's financing costs are highest.¹⁹
- **The allowance is, in practice, an irreversible choice,** and it depends on the holder obtaining and passing on an "allowance statement" recording the date of the earliest construction contract, the amount of qualifying expenditure and the date of first use. A purchaser without that statement inherits no residual pool, which creates a real administrative and diligence burden in transactions.²⁰
- **Tax-exempt investors gain nothing.** Real Estate Investment Trusts (REITs) and other institutional investors that are exempt from UK corporation tax have no taxable profits against which to set an allowance, so for a large share of the non-residential property investment market the SBA provides no incentive at all.²¹

A further problem is structural rather than a matter of rate: the cost of a single building is not relieved through one allowance but split across several, each working differently. The shell of the building falls under the structures allowance at three per cent on a straight-line basis over thirty-three years; its integral features, the electrical, heating, ventilation and lighting systems, lifts and similar plant, fall instead into the capital allowances special rate pool at six per cent on a reducing-balance basis that mathematically never reaches zero; and some elements qualify for the fifty per cent first-year allowance or the annual investment allowance. A single investment is therefore carved into parcels, each written off at a different rate, by a different method, over a different and sometimes unending horizon, with several parallel pools to maintain for decades.

This compliance burden is not trivial. The complexity of the capital allowances rules, the boundaries between asset categories, and frequent legislative change mean that claims, especially on construction expenditure, typically require specialist input, and the resulting cost and uncertainty fall hardest on smaller businesses that lack access to expert advice.²² That is a fixed, deadweight compliance cost: it buys no additional investment and produces nothing but a defensible split between tax categories.

The one area of additional generosity is geographic. An enhanced SBA of ten per cent per year is available for qualifying expenditure within designated freeport (and, by extension, investment zone) tax sites. Originally available until late September 2026, this has since been extended to 2031 in England and 2034 in Wales and Scotland. This shortens the recovery period to ten years within those sites, but it is a narrow, time-limited and location-specific carve-out rather than a feature of the general regime.²³

A striking and policy-relevant observation comes from the British Property Federation's response to the 2022 Treasury consultation. The BPF reports that, in practice, capital allowances have only a marginal influence on property investment decisions, with non-residential factors dominating. Property investment appraisals are generally made "above the line", that is, without detailed modelling of the tax impact, in part because relief on SBAs and special-rate assets is spread over such a long horizon that it is heavily discounted in any appraisal. The BPF notes that only an exceptional incentive,

¹⁷ Saffery, "Structures and Buildings Allowance," 2025, <https://www.saffery.com/insights/articles/structures-and-buildings-allowance/>; HM Revenue and Customs, *Explanatory Memorandum to the Capital Allowances (Structures and Buildings Allowances) Regulations 2019* (London: HM Revenue and Customs, 2019), para 7.3.

¹⁸ Deloitte, "Structures and Buildings Allowance," TaxScape, accessed June 17, 2026, <https://taxscape.deloitte.com/article/structures-and-buildings-allowance.aspx>.

¹⁹ HM Revenue and Customs, *Explanatory Memorandum to the Capital Allowances (Structures and Buildings Allowances) Regulations 2019* (London: HM Revenue and Customs, 2019), para 7.3; British Property Federation, *Potential Reforms to the UK's Capital Allowances Regime: Consultation Response* (London: British Property Federation, 2022), 5.

²⁰ Deloitte, "Structures and Buildings Allowance," TaxScape, accessed June 17, 2026, <https://taxscape.deloitte.com/article/structures-and-buildings-allowance.aspx>; Saffery, "Structures and Buildings Allowance," 2025, <https://www.saffery.com/insights/articles/structures-and-buildings-allowance/>.

²¹ British Property Federation, *Potential Reforms to the UK's Capital Allowances Regime: Consultation Response* (London: British Property Federation, 2022), 4.

²² Javad Gholizadeh, Kwang-Sung Chun, Clive Curd, Nolan Masters, David Gibson, and Yongmin Li, "Automated Assessment of Capital Allowances," IEEE Access 12 (2024): 60205–60221, <https://doi.org/10.1109/ACCESS.2024.3393830>; British Property Federation, *Potential Reforms to the UK's Capital Allowances Regime: Consultation Response* (London: British Property Federation, 2022), 4.

²³ Saffery, "Structures and Buildings Allowance," 2025, <https://www.saffery.com/insights/articles/structures-and-buildings-allowance/>. On the subsequent extension of this scheme see: HMRC, "Tax reliefs (part 2)", 2026, <https://www.gov.uk/government/publications/help-with-freeports-gfc14/tax-reliefs-part-2>



such as the former enterprise zone allowances or the super-deduction, tends to change behaviour.²⁴ This is significant for reform design: it implies that a slow, backloaded allowance such as the current SBA is poorly placed to influence the marginal investment, and that the form of relief (whether it is felt up front and “above the line”) matters as much as its headline rate. The BPF accordingly argued for above-the-line mechanisms,

including the option of a payable credit modelled on R&D relief for businesses (such as REITs) without sufficient profits, and for targeted enhanced allowances for green retrofit, energy-efficiency upgrades and high-street regeneration, potentially linked to building assessment ratings such as BREEAM or LEED.²⁵

²⁴ British Property Federation, *Potential Reforms to the UK’s Capital Allowances Regime: Consultation Response* (London: British Property Federation, 2022), 4–5.

²⁵ British Property Federation, *Potential Reforms to the UK’s Capital Allowances Regime: Consultation Response* (London: British Property Federation, 2022), 6–7.

Examples of Different Structures in Competitor Nations

Internationally, the UK ranks poorly for tax competitiveness compared to most OECD nations. We rank just 23rd for the capital allowances we offer on investment in structures and buildings. Once you account for the cost of inflation and time value of money, investment in a non-residential building in the UK will, according to the Tax Foundation, get you back just thirty nine point one per cent of the present value (PV) of the investment. This compares to an OECD

average of forty seven point six per cent.²⁶ The same dataset shows the United Kingdom tied for first, at one hundred per cent, on machinery, because plant and equipment qualify for permanent full expensing. So the United Kingdom leads the world on relieving investment in plant and machinery but sits in the bottom third on relieving the structure. Extending full relief to structures would move the United Kingdom from the back third of the field to the front of it.

Country	Buildings	Machinery	All Assets
United Kingdom	39.1% (23rd)	100% (1st)	72.4% (15th)
OECD Average	47.6%	85.3%	68.5%
Estonia/Latvia	100% (1st)	100% (1st)	100% (1st)
Canada	62.5% (5th)	96.7% (4th)	76.0% (5th)
Italy	57.7% (7th)	87.0% (16th)	76.3% (4th)
France	54.8% (9th)	88.0% (12th)	74.2% (7th)
Germany	39.1% (23rd)	80.4% (29th)	64.4% (25th)
United States ²⁷	35.0% (29th)	95.1% (5th)	65.6% (21st)
Japan	27.9% (35th)	85.9% (23rd)	60.9% (31st)

Present value of capital allowances under 2024 rules, discounted at 7.5% (2% inflation, 5.5% real); OECD rank shown in brackets, out of 38 countries. The buildings and machinery columns move independently, since 100% bonus depreciation in the United States reaches equipment and fixtures but not the 39-year structure. Source: Tax Foundation, Capital Cost Recovery across the OECD, 2025.

There are two other key points that arise from looking at international comparisons. The first is the treatment of fixtures and fittings rather than the structure or building. For most non-residential buildings the United States runs a long 39-year life for the structure, but in practice a large share of a real project escapes that schedule: cost segregation reclassifies interior fit-out and building systems into much shorter recovery classes, Section 179 expensing covers a range of equipment outright, and one hundred per cent bonus depreciation, restored on a permanent basis in 2025, allows immediate write-off of qualifying components.

Furthermore, since 2025 the United States has gone further still for one category. Under the One Big Beautiful Bill Act, the structure of a manufacturing, production or refining facility can itself be written off in full in the year it is placed in service, the first time US law has let the building, rather than only its contents, be expensed immediately, though only for those activities and only for a temporary construction window. The result is that an identical project attracts far more front-loaded relief in the United States than in the United Kingdom, on the fixtures and systems layer for any non-residential building and, for manufacturing, on the structure as well. A serious comparison should therefore weigh not only

²⁶ Tax Foundation, “Capital Cost Recovery across the OECD, 2025 Update,” Cristina Enache, June 2025, <https://taxfoundation.org/data/all/global/capital-allowances-cost-recovery-2025/>. Present values are calculated at a 7.5% discount rate (2% inflation, 5.5% real). On the same basis the United States recovers 35% on buildings (29th of 38), and Estonia and Latvia reach 100% through cash-flow tax systems.

²⁷ For the bare structure of most non-residential buildings the United States writes the cost down over 39 years, which is the figure shown here and reflects the rules in force in 2024. One hundred per cent bonus depreciation does not reach the shell, since it applies only to property with a recovery period of 20 years or less, which is why the United States scores highly on machinery but poorly on buildings. For one class of building this has now changed. Under the qualified production property rules introduced by the One Big Beautiful Bill Act 2025 (Internal Revenue Code section 168(n)), the structure of a manufacturing, production or refining facility can be expensed in full in the year it is placed in service, which puts the United States among the most generous regimes in the world for those particular buildings. That relief is narrower and less settled than full expensing would be here: it is confined to manufacturing, production and refining activity and so excludes offices, warehousing and most general non-residential property, it is owner-occupied only, and it is temporary, applying to construction begun between 2025 and the end of 2028. The permanent, allstructures treatment proposed in this paper would therefore be both broader and more durable than the United States offers even after 2025.

the headline rate but how each system treats integral features, where the United Kingdom's special-rate pool is far less generous than the US combination of cost segregation and bonus.²⁸

The second, and strongest, comparative point is the United Kingdom's own recent history. The Industrial Buildings Allowance, in place in some form since the 1940s, was phased out between 2008 and 2011, and for roughly seven years from April 2011 there was no general relief at all for the cost of constructing a nonresidential building or structure, at a time when every other G7 country gave building depreciation throughout. The SBA, introduced for contracts entered into on or after 29 October 2018, was justified explicitly as filling that gap and bringing the United Kingdom into line with competitor nations, which concedes the principle the paper relies on.²⁹

There is also a live domestic pilot. Inside designated freeport and investment-zone tax sites the SBA is enhanced to ten per cent a year, giving full relief over ten years rather than 33 and a third, alongside enhanced first-year allowances for plant. The window was extended at the 2023 Autumn Statement to run to 30 September 2031 in England, and to 2034 in the Scottish and Welsh sites. This is the reform in miniature, already operating on UK soil, albeit as a geographically confined and time-limited pilot.³⁰ We don't yet have a proper impact evaluation on the enhanced SBA in freeports and investment zones, and trying to do one would prove challenging as establishing an accurate counterfactual is not clear cut.

The cleanest example of neutral treatment for buildings in the OECD comes from Estonia and Latvia, and the most instructive feature of it is that neither country has a buildings allowance at all. The result is delivered by the structure of the corporate tax itself. Estonia, on rebuilding its tax system after regaining independence, abolished the conventional annual tax on company profits in 2000 and replaced it with a tax levied only when profits are distributed. Retained and reinvested earnings are not taxed; the charge falls only on dividends and deemed distributions, such as non-business expenses, gifts and transfer-pricing adjustments. The design was chosen for simplicity and to encourage reinvestment in a capital-scarce, fast-growing economy, and it has the effect

of removing tax from the margin of the reinvestment decision entirely.³¹

Latvia adopted essentially the same cash-flow model with effect from 1 January 2018, becoming the second OECD country to do so; Lithuania, the third Baltic state and the natural comparator, did not.³² The tax is collected on the grossed-up value of a distribution: in Estonia the rate is twenty two per cent applied as 22/78 of the net amount distributed, and in Latvia twenty per cent, applied as 20/80. Because the liability is deferred until profits leave the company, a firm that reinvests its earnings, whether in plant or in a building, pays no corporate tax on that income in the meantime, and faces an effective marginal tax rate of zero on the reinvested sum. It is, in substance, a deferral that becomes a permanent benefit for as long as profits are recycled into the business. Estonia layered a small additional levy on top of the system from 2026 (a temporary two per cent "defence" charge), but the core design is unchanged.³³

Why does a system with no depreciation schedule produce better treatment of buildings than the elaborate allowances of most other countries? Because the benchmark for neutral treatment is full expensing, or its present-value equivalent, and the distributed-profits tax reaches that benchmark automatically for every asset. The Tax Foundation codes both Estonia and Latvia as allowing one hundred per cent of the present value of any capital investment to be written off, which it describes as equivalent to full expensing.³⁴ For industrial buildings specifically, that one hundred per cent stands against an OECD average present value of just forty seven point six per cent in 2025. Buildings are in fact the worst-treated asset class across the OECD: the average allowance is eighty five point three per cent for machinery and seventy six point seven per cent for intangibles, but only forty seven point six per cent for buildings, with the least generous regimes (Costa Rica, Hungary and Japan) at twenty seven point nine per cent and New Zealand, having abolished building depreciation, at zero. The UK's three per cent straight-line SBA sits well down this distribution, at a present value of roughly thirty six per cent on the same discounting basis.³⁵

²⁸ On the United States: cost segregation, Section 179 and 100% bonus depreciation, the last restored permanently by the One Big Beautiful Bill Act 2025; and, for the structure itself, the qualified production property rules at Internal Revenue Code section 168(n), introduced by the same Act, allowing 100% first-year relief for a manufacturing, production or refining facility where construction begins between January 2025 and the end of 2028, subject to a ten-year recapture.

²⁹ On the abolition of the Industrial Buildings Allowance (phased out 2008–2011) and the introduction of the SBA for contracts on or after 29 October 2018, see Deloitte, "Structures and Buildings Allowance," TaxScape <https://taxscape.deloitte.com/article/structures-and-buildings-allowance.aspx>

³⁰ HM Treasury, freeport and investment-zone tax reliefs; the enhanced 10% SBA window was extended at the 2023 Autumn Statement to 30 September 2031 in England (2034 in Scotland and Wales). See also Saffery, "Structures and Buildings Allowance," 2025. <https://www.saffery.com/insights/articles/structures-and-buildings-allowance/>

³¹ "Estonia, Latvia Have Most Competitive Corporate Tax Systems in the OECD," Tax Foundation, July 24, 2023, <https://taxfoundation.org/blog/estonia-tax-system-latvia-tax-system/> (Estonia adopted its distributed-profits system in 2000); PwC, "Estonia: Taxes on Corporate Income," Worldwide Tax Summaries, accessed June 17, 2026, <https://taxsummaries.pwc.com/estonia/corporate/taxes-on-corporate-income>.

³² "Estonia, Latvia Have Most Competitive Corporate Tax Systems in the OECD," Tax Foundation, July 24, 2023, <https://taxfoundation.org/blog/estonia-tax-system-latvia-tax-system/> (Latvia adopted the system in 2018).

³³ PwC, "Estonia: Taxes on Corporate Income," Worldwide Tax Summaries, accessed June 17, 2026, <https://taxsummaries.pwc.com/estonia/corporate/taxes-on-corporate-income>; Sorainen, *Taxes in a Nutshell 2025 for Estonia, Latvia and Lithuania* (Tallinn: Sorainen, 2025).

³⁴ Tax Foundation, International Tax Competitiveness Index 2025 (Washington, DC: Tax Foundation, 2025), <https://taxfoundation.org/research/all/global/2025-international-tax-competitiveness-index/>.

³⁵ Tax Foundation, *Capital Cost Recovery across the OECD*, 2025 (Washington, DC: Tax Foundation, 2025), <https://taxfoundation.org/data/all/global/capital-allowances-cost-recovery-2025/>. The UK figure is the author's calculation of the net present value of the 3% straight-line SBA at the Tax Foundation's 7.5% discount rate; the Tax Foundation reported the UK at 27.9% when the SBA stood at 2%.

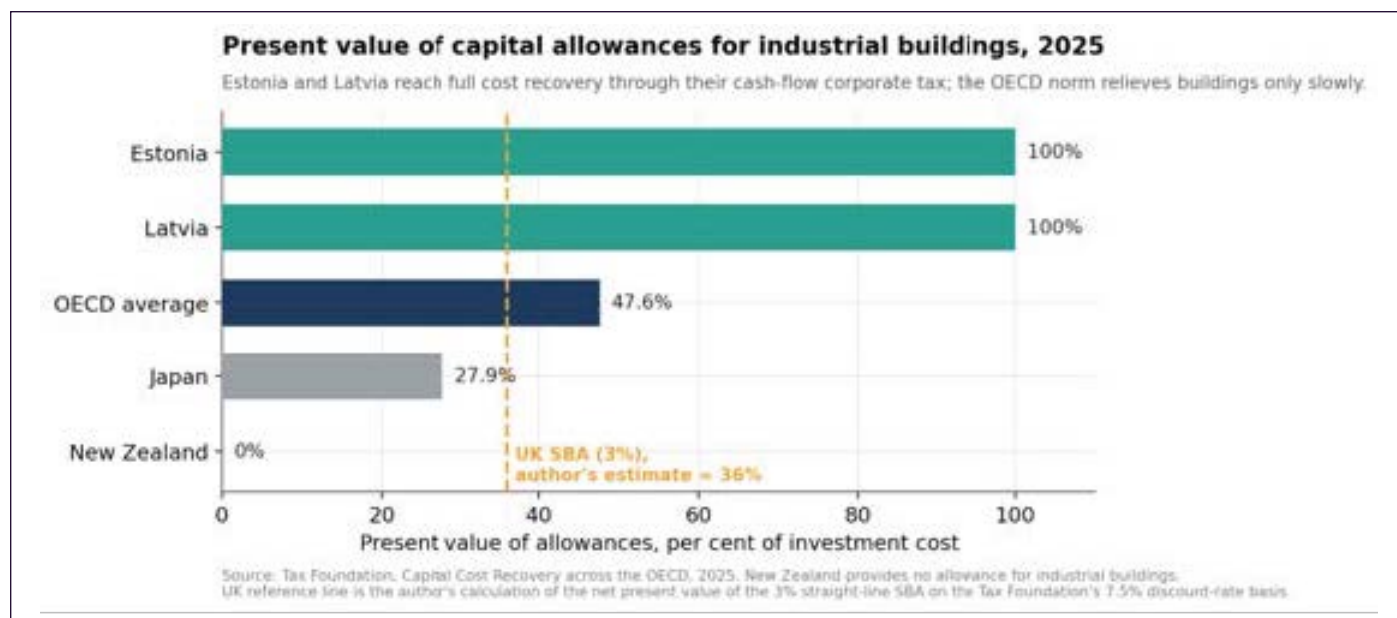


Figure 1. Present value of capital allowances for industrial buildings, 2025. Estonia and Latvia at one hundred per cent, the OECD average at forty seven point six per cent, New Zealand at zero, with the UK SBA shown as a reference line at about thirty six per cent.

The contrast is sharpest when the asset classes are set side by side. Most OECD systems relieve equipment fairly generously and buildings poorly, which is precisely the

distortion the UK debate is concerned with; the Baltic systems remove that distortion by treating all three asset classes identically, at full cost recovery.³⁶

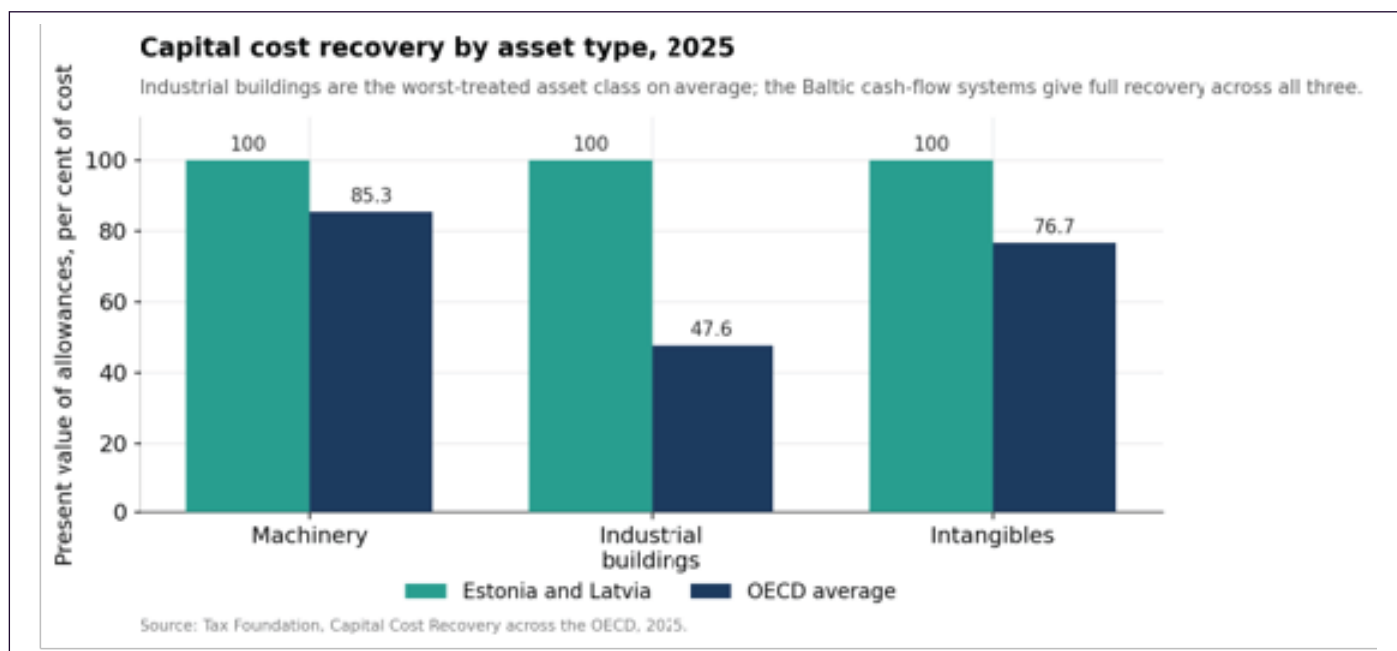


Figure 2. Capital cost recovery by asset type, 2025: Estonia and Latvia compared with the OECD average, for machinery, industrial buildings and intangibles.

On effectiveness, the Baltic model has the advantage of having been studied as a natural experiment. Using a difference-in-differences design that compared Estonian firms with otherwise similar firms in Latvia and Lithuania (in the period before Latvia adopted the same system), Masso, Meriküll and Vahter found that Estonia's 2000 reform raised firms' holdings of liquid assets and reduced their reliance on debt finance,

consistent with the reform easing financing constraints and freeing internal funds for investment, with the largest effects among smaller and credit-constrained firms.³⁷ Investment intensity is shaped by far more than tax, so the aggregate figures prove nothing on their own, but they are at least consistent with the regime not having harmed capital formation: Estonian gross capital formation has averaged around twenty nine per

³⁶ Tax Foundation, Capital Cost Recovery across the OECD, 2025 (Washington, DC: Tax Foundation, 2025), <https://taxfoundation.org/data/all/global/capital-allowances-cost-recovery-2025/>.

³⁷ Jaan Masso, Jaanika Meriküll, and Priit Vahter, *Gross Profit Taxation Versus Distributed Profit Taxation and Firm Performance: Effects of Estonia's Corporate Income Tax Reform*, University of Tartu Faculty of Economics and Business Administration Working Paper No. 81 (Tartu: University of Tartu, 2011).

cent of GDP since the mid-1990s, comfortably above the euro-area norm of roughly a fifth, and the Baltic states continue to run investment rates at or above the European average.³⁸ On the policy side, Estonia has

been ranked the most competitive tax system in the OECD for more than a decade, including in 2025, with Latvia second, and the model is increasingly cited as a template in European tax-reform debates.³⁹

Evidence	Finding	Source
Firm-level effect of the 2000 reform (difference-in-differences against Latvia and Lithuania)	Higher liquidity and lower debt reliance, consistent with eased financing constraints, especially for credit-constrained firms	Masso, Meriküll and Vahter
Cost recovery for buildings	100% of present value, against a 47.6% OECD average	Tax Foundation, 2025
Cost recovery across all asset classes	100% for machinery, buildings and intangibles alike	Tax Foundation, 2025
Tax competitiveness	Most competitive OECD tax system for over a decade (Estonia); second (Latvia)	Tax Foundation, ITCI 2025
Investment intensity (context, not causal proof)	Estonian gross capital formation has averaged around 29% of GDP since the mid-1990s	World Bank national accounts
Revenue and design trade-off	Collects less corporate tax in the near term and ties receipts to distributions; a whole-base reform, not a targeted buildings measure	Tax Foundation; author's assessment

Two caveats temper the read-across to the UK. First, the benefit is a deferral rather than an outright exemption: it accrues in full to firms that reinvest, but the tax is ultimately collected when profits are distributed, so the system raises less corporate tax in the near term and makes receipts more volatile and dependent on distribution behaviour. Second, and more important for the UK, the Baltic outcome is the product of redesigning the corporate tax base as a whole, not just of a targeted buildings allowance. It is the most complete answer

in the OECD to the narrow question of how to remove the tax disincentive to invest in buildings, but importing it would mean replacing the UK's entire system of corporation tax and capital allowances with a cashflow tax, a far larger step than reforming the SBA. Its value in this paper is as a proof that full, neutral cost recovery for buildings is achievable and durable, and as a benchmark against which more incremental UK reforms, such as neutral cost recovery for structures, can be judged.

³⁸ "Estonia Capital Investment, Percent of GDP," TheGlobalEconomy.com, accessed June 22, 2026, https://www.theglobaleconomy.com/Estonia/capital_investment/ (gross capital formation averaging 29.1 % of GDP, 1993 to 2023); World Bank, "Gross Capital Formation (% of GDP)," World Development indicators, accessed June 22, 2026, <https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS>.

³⁹ Tax Foundation, *International Tax Competitiveness Index 2025* (Washington, DC: Tax Foundation, 2025); "EU Considers Unified Rules; Estonia and Latvia's Tax Systems Proposed as Models," Federal Newswire, January 29, 2025.

The Benefits of Reform

There is a large body of empirical work on what happens to investment when a country accelerates its capital allowances, and it points consistently in one direction. The most relevant finding, for a paper concerned with structures and buildings, is that the investment response is largest for exactly the assets the United Kingdom treats worst. Studying the withdrawal of a regional accelerated-depreciation regime in eastern Germany, Eichfelder, Knaisch and Schneider find that the allowance raised real investment by around sixteen to twenty per cent overall, but that the effect was concentrated in long-lived assets: investment in buildings rose by between seventy seven and ninety three per cent, against only seven to eleven per cent for equipment.⁴⁰ The reason is straightforward. Buildings carry the longest write-down period and so the heaviest penalty under a slow allowance, so removing that penalty does the most work. This is the asset class on which the United Kingdom is an international outlier, and it is the asset class the evidence says responds most. In other words, moving to full expensing on structures and buildings can be expected to have a more positive economic impact than the introduction of full expensing for plant and machinery already has.

The mechanism behind this response is cash flow: relief felt in the year of investment reaches the creditconstrained firms that a slow, deferred allowance leaves behind. In effect as explained further below, the firm is able to finance internally more cheaply due to the increased cash flow rather than pay a higher cost to raise additional financing externally. That mechanism also determines how far the response is genuinely additional investment rather than a windfall, and why the form in which relief is given matters as much as its present value. The subsection on behavioural change below takes these up in turn.

The scale of that gain has been modelled directly. In a single analysis that ran equipment, research and development, and structures through the same model on the same basis, the Tax Foundation estimates that making full expensing permanent raises long-run output by zero point four per cent for equipment, by one point three per cent for structures, and by one point eight per cent for the three together.⁴¹ The structures effect

is more than three times the equipment effect, and the reason is scale: structures are over three-quarters of the private capital stock, against around fifteen per cent for equipment, so relieving them moves far more of the capital base.⁴²

The Tax Foundation's dedicated work on structures puts the long-run output gain higher still, at two point eight per cent, with the capital stock around seven per cent larger and wages around two point four per cent higher, the pay gain following from the deeper capital stock and the productivity it supports.⁴³ These are United States estimates on United States assumptions, and the structures figures cover non-residential and residential buildings together, so they indicate direction and order of magnitude rather than a precise figure for a nonresidential reform in the United Kingdom. Even read cautiously, the order of magnitude is the point: the prize from relieving structures is larger than from the plant reform already in place, and it is permanence that turns it from a pull-forward of investment into a lasting gain in the capital stock, productivity and wages.

Two factors play a key role in determining the size of the benefit. The first is that permanence matters. Both the Office for Budget Responsibility and the IFS conclude that temporary allowances mainly change the timing of investment rather than its level, and that only a permanent, credible reform raises the capital stock durably, and with it productivity and wages.⁴⁴ A reform meant to lift the United Kingdom off the floor of the G7 investment league, where it has sat for most of the past two decades, has to be built to last. The second is that the full productivity dividend depends on the supply side being able to respond, so the gains will be largest where planning and other impediments to non-residential development, such as access to grid connections, do not stand in the way. None of this undermines the case; it sharpens it. *Ceteris paribus*, more generous capital allowances will deliver the greatest benefits when introduced alongside liberalisation of planning and permitting for nonresidential development.⁴⁵

Transitioning to full expensing covering the whole of a structure and building rather than just the plant and

⁴⁰ Sebastian Eichfelder, Jonas Knaisch, and Kerstin Schneider, "Bonus depreciation as instrument for structural economic policy: effects on investment and asset structure," *Review of Managerial Science* (2025). <https://doi.org/10.1007/s11846-025-00885-y>

⁴¹ Tax Foundation, "Expensing: It Pays to Be Permanent" (January 2025), modelling permanent full expensing for equipment, R&D and structures on one basis, <https://taxfoundation.org/blog/permanent-bonus-depreciation-expensing-options/>

⁴² Tax Foundation, "The Tax Treatment of Structures" (2024), nonresidential structures 31.4% and residential 46.5% of the private capital stock, equipment around 15%, <https://taxfoundation.org/research/all/federal/depreciation-of-structures/>

⁴³ Tax Foundation, "5 Options for Improving the Tax Treatment of Structures" (2024), full expensing for structures raises long-run GDP 2.8%, the capital stock 7.0% and wages 2.4%, <https://taxfoundation.org/research/all/federal/neutral-cost-recovery-for-buildings/>

⁴⁴ Office for Budget Responsibility, "The impact of corporation tax changes on business investment" (November 2023); Institute for Fiscal Studies, "Full expensing and the corporation tax base" (October 2023).

⁴⁵ Paul C. Cheshire and Christian A. L. Hilber, "Office Space Supply Restrictions in Britain: The Political Economy of Market Revenge," *Economic Journal* 118, no. 529 (2008): F185–F221. <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-0297.2008.02149.x>

machinery also simplifies the tax system. As already outlined the current system of capital allowances is quite complicated, and imposes a significant compliance burden. Because full expensing relieves the whole cost of a building in the year it is incurred, it removes the need to divide that cost between the structures allowance, the special rate pool and the first-year and annual investment allowances. With everything relieved at once there are no parallel pools to carry forward, no reducing-balance tail running in perpetuity, and no edge case disputes over which category a part of the investment belongs in. The specialist apportionment described earlier, with its fixed cost falling hardest on smaller firms, simply falls away. This does not abolish every boundary, a firm must still separate the cost of the land, which attracts no relief, but it collapses the apportionment within the building itself, which is the bulk of the exercise and the most contested part. The reform thus removes a real and recurring compliance burden at the same time as it removes the investment distortion.

Behavioural changes

A key concern with any investment incentive is that firms simply bank the relief for investment they would have made anyway. The evidence, including evidence from the United Kingdom, answers that concern directly. Using confidential UK corporation tax returns and a change in the first-year-allowance thresholds in 2004 as a natural experiment, Maffini, Xing and Devereux find that the investment rate of qualifying companies rose by 2.1 to 2.5 percentage points relative to non-qualifying firms, and, crucially, that this was a genuine cost-of-capital effect rather than a mere relaxation of cash constraints, which is the cleanest available rebuttal to the windfall objection. The same work notes the policy concern created by the UK's abolition of buildings allowances, tying the finding directly to the present proposal.⁴⁶

It is worth being clear about why the choice between full expensing and neutral cost recovery matters at all, the full list of reform options being detailed in the next section, because in one sense it should not. Each is designed to deliver the same present value of relief, discounted at the cost of capital, and on the textbook account that is the only thing that affects a firm's investment decision. With perfect capital markets a firm is indifferent between relief now and relief later of

the same present value, since it can borrow against the deferred relief at the same rate. On that view the two are interchangeable, and the only thing to choose between them is the profile of the cost to the Exchequer.

In practice the timing does matter, and the front-loaded route buys more investment for the same present value. The reason is not that the firm can reinvest the upfront relief and earn a return on it, because at the margin that return is only its cost of capital, which the present value calculation has already counted. It is that capital markets are not frictionless. For a firm that cannot borrow freely against relief it will not receive for years, internal cash is cheaper than outside finance, so relief today loosens a binding constraint and lets it fund a project it would otherwise postpone or drop, whereas the same relief spread over three decades does not.

The evidence bears this out: Zwick and Mahon, studying more than 120,000 US firms, find that firms respond strongly to accelerated depreciation when it generates immediate cash flow but barely at all when the benefit arrives only in the future, and that smaller firms respond roughly twice as strongly as large ones.⁴⁷ This is direct support for front-loading the relief and for the simplification benefit to smaller firms, and it is why a glide path that places real value in the first year captures much of the effect. Quasi-experimental evidence from US states that adopted accelerated or full expensing points the same way, with higher investment, compensation and output in adopting states, and the earlier macro evidence on the first US bonus depreciation episode is consistent in direction.⁴⁸

A further consideration weighs on exactly the firms that build the largest facilities: relief deferred over many years is worth less than its face value even before discounting, because it depends on the firm having future profits to set it against and, if the schedule is unindexed, on inflation not eroding it, while relief taken in full today is certain. Full expensing and neutral cost recovery are therefore equal in present value by construction, but not equal in effect. The front-loaded route does more for investment at a higher upfront cost; the spread route secures the same neutrality and the same protection against inflation at a far lower one. That is the real choice between full expensing and a phased route to it, which the next section sets out.

⁴⁶ Giorgia Maffini, Jing Xing, and Michael P. Devereux, "The Impact of Investment Incentives: Evidence from UK Corporation Tax Returns," *American Economic Journal: Economic Policy* 11, no. 3 (2019): 361–389 <https://www.aeaweb.org/articles?id=10.1257%2Fpol.20170254>

⁴⁷ Eric Zwick and James Mahon, "Tax Policy and Heterogeneous Investment Behavior," *American Economic Review* 107, no. 1 (2017): 217–248. <https://www.aeaweb.org/articles?id=10.1257%2Faeer.20140855>

⁴⁸ Eric Ohn, "The Effect of Tax Incentives on US Manufacturing: Evidence from State Accelerated Depreciation Policies," *Journal of Public Economics* 180 (2019). The effect of tax incentives on U.S. manufacturing: Evidence from state accelerated depreciation policies – ScienceDirect

The Options for Reform

There is more than one way to deliver the reform. The choice between them is about timing and mechanism rather than destination: each option below ends in the same place, full or near-full relief for the cost of a building in the period it is incurred, but they differ in how quickly they get there, how they treat the relief not given straight away, and what they cost the Exchequer in the early years. There are four.

1. Full Expensing

What it is: the whole cost of a qualifying building is deducted from taxable profits in the year the money is spent, at the main rate of corporation tax, with no further schedule to maintain. It is the treatment companies already receive on most plant and machinery, extended to the structure itself.

Pros: the strongest investment incentive and the simplest to administer. The relief is immediate and the evidence set out later suggests this is the form businesses respond to most strongly, because it puts cash in hand in the year of investment. There is no ongoing calculation once the deduction is claimed.

Cons: it places the largest near-term burden on the Exchequer of any option, bringing the entire cost forward into the early years.

2. Glide path with a straight-line tail

What it is: full expensing remains the destination, but the move towards it is phased. The first-year allowance rises over time, twenty per cent for investment made in the first year of the reform, twenty five per cent in the second, climbing five percentage points a year until it reaches one hundred per cent, after which all new investment is fully expensed. On the pace modelled here that point is reached in the seventeenth year. The part of the cost not relieved in the first year is written off in equal instalments of three per cent of the original cost each year, the same straight-line basis the existing structures allowance already uses.

Pros: it captures most of the investment benefit from the outset, since relief is more generous than the current allowance from the first year and rises steadily, while spreading the cost over a longer period to ease the near-term burden. Because it uses the straight-line machinery already in place, it adds nothing to the complexity of the system.

Cons: it reaches full relief only gradually, so the earliest cohorts of investment receive less than they would under an immediate switch.

3. Glide path with a reducing-balance tail

What it is: identical to the option above in its rising first-year allowance, but the part of the cost not relieved in the first year is written down at three per cent of the declining balance each year rather than three per cent of the original cost. The deductions therefore start larger and tail off, in the manner of the main plant and machinery pools.

Pros: it is cheaper than both the straight-line glide path and full expensing during the transition, because writing the remainder down against a shrinking balance defers the tail harder. Over the full transition period it is also cheaper than neutral cost recovery, though not in the early years, where neutral cost recovery costs less by withholding more of the relief.

Cons: that saving is not free. The harder deferral lowers the present value of the relief to the business and so weakens the investment incentive, giving back part of the behavioural benefit the reform is meant to secure. It is also the only option that adds complexity, reintroducing the declining-balance pool arithmetic the structures allowance was designed to avoid, and it leaves a balance that never fully clears.

4. Neutral cost recovery

What it is: a different route to the same present value. Rather than accelerating the relief, the cost is written down over the life of the asset as now, but each future deduction is uprated by a set rate to compensate the business for inflation and the time value of money. The deductions remain spread over many years, but because each is increased to offset the delay, their present value adds up to the full cost, as though the whole sum had been deducted immediately.

Pros: the most elegant in theory and, on a static basis, among the cheapest to the Exchequer in the early years, since it delivers full present-value relief without any upfront deduction.

Cons: its weaknesses are practical and political. The evidence discussed later indicates it would do less for investment per pound of cost than front-loaded relief, precisely because it withholds the year-one cash that firms value most. It is unfamiliar and harder to explain than a straightforward deduction, and it produces nominal deductions that exceed the original cost over time, which is correct in present-value terms but invites misunderstanding.

Preferred Option

Weighing the four against one another, the choice comes down to the same two things traded off: the strength of the investment incentive and the timing of the cost to the Exchequer. Each option reaches the same destination, full or near-full relief for the cost of a building, so the question is how much of the investment response it secures and how heavily the cost falls in the early years. On that test, the glide path with a straight-line tail is the strongest option.

The case for it rests on what the others give up. Full expensing is the ideal in incentive terms, the largest cash incentive and the cleanest design with nothing to track, but it asks the Exchequer to bear the entire cost at once, and in current fiscal conditions that near-term burden is the binding obstacle to doing anything at all. Neutral cost recovery inverts that profile, spreading the cost but, on the behavioural evidence above, securing less of the investment response per pound, because it withholds the year-one cash that firms respond to most. The reducing-balance glide is cheaper still in the early years, but it buys that saving by deferring relief harder, which dulls the same incentive, and it is the only option that makes the system more complex rather than less.

The straight-line glide path avoids each of these traps. It delivers a more generous, more front-loaded incentive than the current allowance from the very first year, so the investment benefit begins to accrue immediately rather than waiting on a long transition. It phases the cost to the Exchequer, keeping the near-term commitment manageable while still converging on full expensing over time. And it does so using the straightline machinery the structures allowance already runs on, so it adds no administrative complexity and asks nothing new of either businesses or HMRC.

It also fits the broader fiscal picture, which the next section sets out in full. The existing allowance is already carrying the Exchequer towards the full cost of full expensing, slowly and over more than three decades, while securing very little of the investment it is meant to encourage. The choice is therefore not whether to bear that cost but whether to bear it productively. The straight-line glide is what makes the productive choice affordable now: it commits to a destination the public finances are heading for in any case, captures the investment benefit from the outset, and spreads the additional cost so that it can be absorbed without a single large hit to any one year.

The pace can then be tuned to the fiscal space available. A faster glide, with a higher starting rate or a steeper annual step, brings the investment benefit forward at the price of a larger near-term cost; a slower one does the reverse. That flexibility is itself an argument for the glide: it is the only option whose generosity can be dialled to fit the headroom of any given Budget, rather than presenting the Chancellor with a single take-it-or-leave-it figure.

Value recovery

The options can be compared by what they are worth to the business making the investment. The measure for this is value recovery: the share of the cost of a building that a firm recovers through the relief it receives adjusted into present value terms. We do this by discounting future deductions at a firm's cost of capital, here seven point five per cent, the same basis as the international comparison earlier in this paper. A pound of relief today is worth a pound; a pound promised in twenty years is worth far less, so the sooner and the more fully the relief arrives, the higher the rate of recovery.

System	Value recovery (% of cost, present value)
Existing allowance (structures and buildings allowance)	39%
Glide path, straight-line tail	54%*
Glide path, reducing-balance tail	43%*
Full expensing	100%
Neutral cost recovery	100%

*Glide figures are for the first cohort of investment, receiving a 20% first-year allowance; recovery rises towards 100% as the allowance phases in over the following years.

Under the existing allowance a firm recovers just thirty nine per cent of the cost of a building in present value. The relief is real, but spread so thinly over thirty-three years that more than half its value is lost to time and inflation before it arrives. Full expensing recovers the full one hundred per cent, by definition, since the whole cost is relieved at once. Neutral cost recovery also reaches one hundred per cent, because its uprating is designed to restore what delay takes away, though, as the behavioural evidence above sets out, firms do not respond to that deferred relief as they do to cash in hand.

The glide path sits between the existing allowance and full expensing, and climbs over time. Its first cohort of investment, receiving a twenty per cent first-year allowance, recovers fifty four per cent of the cost on a straight-line tail, already a marked improvement on the thirty nine per cent of the status quo. Further, because the first-year allowance rises five points a year towards one hundred per cent each successive cohort recovers more, converging on the full one hundred per cent recovery of full expensing. The reducing-balance tail recovers less, forty three per cent for the first cohort, because it defers more of the relief, the same feature that makes it cheaper to the Exchequer in the transition and weaker as an incentive. Value recovery therefore

tracks the investment case directly: the options that put relief in firms' hands sooner score higher, and the straight-line glide, the option this paper recommends, lifts recovery above the status quo from the very first year while keeping the fiscal cost affordable.

Concerns about creating incentive to delay investment

The most serious objection to a glide path is that a first-year allowance which rises year after year gives firms a reason to wait. If investing next year secures a larger deduction than investing this year, why not defer? The worry has a precedent. The super-deduction of 2021 to 2023 was set at 130 per cent, above the cost of the asset, because the government wanted to influence the timing of investment: with corporation tax about to rise from 19 to 25 per cent, firms had reason to defer so that their deductions fell in the higher-rate years, and the uplift, with its expiry date, was meant to pull investment forward instead.

Two things about the glide answer the worry. The glide changes when relief is given, not how much: every cohort is relieved for the full cost of its building, so there is no larger prize further down the line to reward holding off, only a difference in how much of that fixed total lands in the first year. And deferral is costly. Waiting a year raises the first-year allowance by five percentage points, but that increment comes from the far end of the firm's own write-down, where its discounted value is slight, and waiting pushes the rest of the relief back by a year too.

Take first the starkest form of the objection: that a firm holds out for several years to claim a much larger first-year allowance, perhaps waiting until it can write off the whole cost at once. This has the arithmetic backwards. Because the total relief is fixed however long a firm waits, holding out does not enlarge it, it only postpones it, and postponement loses value. Valued at a single point in time, relief is worth about 54 per cent of an asset's cost to a firm that invests at the start of the scheme and about 31 per cent to one that waits the full transition for the 100 per cent allowance. The longer the wait, the less the relief is worth. An extended wait is a mistake the design penalises.

That leaves the narrower version: not a firm holding out for years, but a firm deciding, in whatever year it has reached, whether to build now or slip a single year to collect the next step up. This is a fresh decision every year, not a scenario outlined in the preceding paragraph of a firm delaying several years to invest. For a firm in year 1 of the glide path with initial relief of 20% rising to 25% in year 2, it is close to a dead heat, tilting towards waiting only for a firm that discounts future relief at less than about nine per cent. At the 7.5 per cent cost of capital used in this paper, that is a marginal tilt towards waiting in the first year, however for a firm making a fresh investment decision in year 2, the margin has reversed and there is

no value to delaying a year. The rate of cost of capital to make delay worthwhile then falls quickly as the scheme matures. Because each rise in the first-year allowance leaves a shorter tail behind it, and so less deferred relief to bring forward, while the cost of losing a year to the time value of money holds steady. By the fifth year of the scheme a firm making a fresh investment decision and choosing whether to delay to year 6 or not, faces an easy decision: the oneyear wait no longer pays at any positive discount rate at all: a firm standing in year five is worse off slipping to year six even if it discounts the future at a tenth of one per cent.⁴⁹

Even the small temptation of the opening years falls where it cannot act. It exists only for firms discounting deferred relief at those low rates, which assume finance on near-frictionless terms, and no firm borrows on such terms. External funds cost more than internal ones, so every firm, large as well as small, sets some premium on cash it does not yet hold and discounts deferred relief more steeply than the frictionless benchmark implies, which carries it past the point where waiting pays. This is central to the reform, not incidental to it. The case that front-loaded relief lifts investment rests on those same frictions, since if finance were frictionless the timing of relief of equal value would not affect investment at all. The constraint that makes accelerated relief work, a steep discount on cash deferred, is the one that makes waiting for it a poor choice. The objection has to assume the frictionless world in which the reform would do nothing.

Turning to the super-deduction briefly, this moved the timing of investment because it gave more than 100 per cent relief and because it sat across a rise in corporation tax, so the value of a deduction changed from one year to the next. The glide does neither: relief never exceeds 100 per cent, the rate is unchanged throughout, and nothing expires. What the precedent shows is that firstyear allowances move investment, a lever the Treasury has used before and one this reform uses permanently and without those side effects.

Importantly, while there may be certain circumstances where it makes sense at the margin for a firm to delay an investment a year, this also comes with a cost of not having the asset. A firm builds a warehouse or fits out a laboratory in order to use it, and one that waits to collect a larger allowance gives up a year of the output and position the building exists to produce, and takes on a further year of construction-cost inflation and demand risk. These outweigh a fraction of a point of accelerated relief comfortably.

Furthermore, alongside the impact on timing of investment, there is also a level effect, i.e. shifting the level of investment in structures and buildings up because relief is more generous. Every cohort under the glide receives a far more generous first-year deduction than the three per cent available now, beginning at

⁴⁹ The glide gives cohort i a first-year allowance $F_i = \min(20\% + 5(i-1)\%, 100\%)$, with the remainder written off straight line at 3 per cent of cost a year, so every cohort is relieved for 100 per cent of its cost in total and only the timing differs. Discounted at a firm's cost of capital and valued at each cohort's own investment date, the present value of relief rises from about 54 per cent of cost for the first cohort to 100 per cent for the seventeenth. A decision to defer, however, compares cohorts at a common date. On that basis, the recurring one-year decision, whether to invest now or slip a single year, turns on a threshold discount rate that falls as the scheme matures: a one-year wait is worthwhile only below about 8.9 per cent in the first year, 6.0 per cent in the second, 3.8 per cent in the third and 1.7 per cent in the fourth, and from the fifth year onward at no positive rate at all, the wait from year five to year six losing value even at 0.1 per cent. The cumulative figures point the same way: valued at a common date, relief is worth 54.2 per cent of cost to a firm investing in the first year, 54.4 per cent in the second, and less in every year after, down to 31 per cent for a firm that waits the full transition. The 7.5 per cent cost of capital used elsewhere in this paper, 5.5 per cent real plus 2 per cent inflation, is why the first-year decision is a near dead heat rather than a clear loss.



20 per cent and rising, so the level of investment rises across the board relative to the system in place. This is what the behavioural evidence captures: firms investing more because their cost of capital falls as the cash from relief arrives sooner. Against today's allowance, which is the comparison that matters rather than a jump straight to full expensing, the glide raises the level of investment in structures and buildings raises it, and this should more

than outweigh any incentive some firms may have to delay investment from year 1 to 2 when the glide path is first introduced. And as explained after year 1, the small incentive a small number of cash unconstrained firms may face to delay falls away anyway.

Fiscal Implications of Full Expensing for Non-Residential Buildings

Any major structural tax reform must answer a basic question for the Exchequer: how to balance its immediate budgetary cost against the long-term economic growth it is meant to deliver. This section sets out that balance for each of the reform options, and shows why the timing of the cost, and not only its eventual size, is what should decide between them.

The figures below cost the reform on new investment, measuring each option against the counterfactual in which that investment keeps receiving the existing structures and buildings allowance. The relief already committed on buildings put up since 2018 is honoured in

every case, so it falls out of the comparison and forms no part of the cost of reform. Two numbers matter for each option: the cost in the first five years, which is what a fiscal event would score, and the cost over the full transition, which captures its true weight once the timing of the relief is accounted for. Further details on the modelling can be found in the technical annex.

The additional cost of each option, over and above the counterfactual of the existing allowance continuing, is set out below.

Option	First five years (nominal, £bn)	Full transition (Net Present Value, £bn)
Full expensing	12.8	28.0
Glide path, straight-line tail	3.8	22.2
Glide path, reducing-balance tail	3.6	18.2
Neutral cost recovery	0.1	37.2

Full expensing carries much the largest near-term cost, £12.8 billion in the first five years, because it brings the whole of the relief forward at once. The straight-line glide path reaches the same destination but approaches it gradually, so its five-year cost is £3.8 billion, less than a third of an immediate switch, and it remains lower over the full horizon in present value. The reducing-balance glide defers harder still and is cheaper again. Neutral cost recovery is almost free in the scoring window, at £0.1 billion, because in the early years it adds little to the existing allowance, yet it is the most expensive option over the full horizon, at £37.2 billion and in nominal terms is significantly more expensive over the full modelling horizon.⁵⁰

There is a further way of reading these figures that underlines the choice. In pure cash terms, setting timing aside, full expensing and the straight-line glide path cost the Exchequer the same over the transition, around £45 billion of additional relief either way over the 34 years. They are not different policies with different price tags; they are the same relief delivered on a different schedule. The glide is full expensing paid for over a longer period, which is why it costs the same in cash but far less in the early years and in present value.

It is worth being clear about what the existing allowance already commits the treasury to. The structures and buildings allowance is not a permanently cheaper system than full expensing. It is a slower one that arrives

⁵⁰ Neutral cost recovery is far more expensive in nominal terms over its full operation than its scored cost suggests. Because its deductions are uprated each year, they grow well beyond the cost of the asset: once mature the system settles at around £11 billion a year, against £2.8 billion for the existing allowance, full expensing or the glide path, and the additional cash paid out over the fifty-year horizon, over and above the existing allowance, reaches around £220 billion against roughly £45 billion for full expensing or the glide on the same basis. This is not a like-for-like comparison, since the figures reflect the uprating rather than a larger real cost, and the additional cost in present value is far lower, at about £37 billion. But it is a real cash liability, with large uprated payments falling decades after the investment.

at the same place. Relief at three per cent a year means that, once a full set of overlapping cohorts has built up, the annual cost of the allowance equals the cost of relieving a single year's investment in full under full expensing. Holding investment constant, by the early 2050s, a little over thirty years after the allowance was introduced in 2018, its annual cost will have risen to match what full expensing costs. We are already on a path to bearing the same cost of full expensing on investment in non-residential buildings.

However, despite the fact that the costs of the current Structures and Buildings allowance and the costs of full expensing will eventually converge, the benefits will be significantly smaller under the current system than full expensing, with much less productive investment incentivised. Relief spread thinly over thirty-three years has a weak effect on investment decisions because its present value to the business is low, which is the whole of the case set out above. So the existing regime has the annual allowance cost to the treasury climbing towards the full cost of full expensing while securing very little of the investment response that full expensing will

produce. It is the least attractive combination on offer. Full expensing does not create a new and permanent liability. It brings forward a cost the Exchequer is already committed to, and turns spending that currently does little for investment into spending that does a great deal.

Because the allowance is still young, having only been introduced in 2018, most of that climb is still ahead of us, and the choice is not whether to bear the cost of full expensing but whether to bear it now (either in the form of immediate full expensing or one of the glide path options) or down the line. The glide path is what makes it possible to choose the productive route now. It allows the transition to full expensing to begin immediately, capturing the investment benefits from the outset, while phasing the additional cost so that the near-term burden is modest: on the modelling above, around £3.8 billion over the first five years on a straight-line basis, against £12.8 billion for an immediate switch. We are already headed to the same destination in terms of cost, we may as well take the road with the larger benefits, on cost terms we can absorb.

Implementation of the Policy

The reform has to be robust in two directions: built so that it cannot be turned into an avoidance opening, and designed so that the rest of the tax system does not quietly claw back the incentive it creates.

The central integrity safeguard is to tie relief to actual qualifying expenditure on the structure, claimed by the party that bears the economic cost, layer by layer: the person who funds the structure claims on the structure, the person who funds the fit-out and fixtures claims on those. This is broadly how the current rules already work, and it is the cleanest anti-avoidance anchor, because it prevents allowances from being shifted to whoever can make most use of them and ensures the relief follows real investment rather than financial engineering.

Disposals should carry a balancing charge, on the model already used for plant and machinery. At present the structures allowance has no balancing adjustment; instead the allowances claimed are added back into the capital gains computation on sale, and a buyer inherits the seller's remaining allowances on the original construction cost rather than claiming on what they pay.⁵¹ Full expensing should be paired with the plant treatment instead: when a building is sold the seller brings the relief back in as a balancing charge, up to the relief given, and the buyer claims fresh relief on the structure element of what they pay. The two sides offset. The relief transfers with the building and stays anchored to the cost of constructing it, however many times it changes hands, so the charge is not a penalty on selling; because the buyer's relief lets the seller recover the charge in the price, the lock-in that a one-sided clawback would create does not arise, and no special rollover is needed to prevent it.

Land sits outside the relief on both sides, so the part of the price that is land washes out. What the charge does is convert the measure from a permanent giveaway into a timing measure and close the obvious abuse, a developer expensing a building and selling it on with the relief intact; it bites in earnest only where there is no qualifying buyer to pick the relief up, on demolition or on a sale to a buyer who cannot claim, such as into residential or other non-qualifying use. The plant antiavoidance rules should come across with it, in particular the cap at relief given and the connected-party and anti-churn provisions that stop a firm selling and rebuying its own building to crystallise fresh immediate relief. The switch from the capital gains clawback to

a balancing charge should be stated openly as a deliberate piece of design.

The boundary needs care in two places. The first is the line between land, which never attracts relief, and the structure, which does; a more generous structures allowance raises the value of arguing that line, so the apportionment rules matter more under the reform and may need to be reviewed. The second is the line between non-residential and residential use, which determines eligibility and creates an incentive to characterise borderline assets, such as student accommodation, build-to-rent, care homes and mixed-use schemes, as non-residential; the definition should be set out explicitly and the apportionment of mixed-use schemes placed on a clear footing.

The interaction with interest deductibility must also be addressed. Under full expensing a debt-financed investment can attract a negative effective marginal tax rate, because the firm both expenses the asset and deducts the interest on the borrowing that funded it. Avoiding that double benefit requires disallowing net interest deductions on expensed investment, or an equivalent restriction. Whichever route is chosen, preempting this protects the fiscal integrity of the proposal and removes a distortion it could otherwise create.

The reform also has to sit coherently within the rest of the property tax system, because a building is taxed not only through capital allowances but through business rates while it is held and stamp duty land tax when it changes hands. Business rates are the sharpest of these, because they bite year after year. Rates are charged on a property's rateable value, and improving or extending a building raises that value, so the moment the allowance persuades a firm to expand a factory or upgrade its premises, the rates bill rises to match. Improvement Relief was introduced in 2024 to soften this, but it removes the increase for only twelve months from completion of the works, so is confined to improvements made by a continuing occupier, and it excludes new construction and refurbishment that takes a property off the rating list.⁵² A single rates-free year is too short to weigh in a decision whose payback runs over decades. The relief should be widened and made long term: extending it to five or ten years, and opening it to landlords and developers who build for occupiers rather than only to firms improving premises they already hold, would stop the rates system undoing

⁵¹ Under the current structures and buildings allowance there is no balancing adjustment on a disposal. Instead the allowances given over the period of ownership are added to the disposal proceeds in the capital gains computation, so relief is partly recovered through capital gains tax, and a purchaser continues the seller's remaining allowances on the original qualifying expenditure rather than on the price paid, provided the allowance statement is passed on. See HM Revenue and Customs, 'Claiming capital allowances for structures and buildings,' and the Capital Allowances Manual at CA90000 onwards. <https://www.gov.uk/guidance/claiming-capital-allowances-for-structures-and-buildings>

⁵² Improvement Relief was created by the Non-Domestic Rating Act 2023, which inserted Schedule 4ZA into the Local Government Finance Act 1988, and operates from 1 April 2024. It removes the rateable-value increase arising from qualifying improvements, made by a continuing occupier, for twelve months, and is to be reviewed in 2028. <https://www.legislation.gov.uk/ukpga/2023/53>

through a recurring charge what the allowance does up front. This matters all the more because the 2026 business rates reform layers a higher multiplier onto the largest properties, which falls disproportionately on the industrial and logistics premises the reform is designed to encourage.⁵³

SDLT is a lighter interaction, because it falls on transactions rather than on holding or building, and so does not mechanically offset the allowance. Non-residential SDLT is charged in slices, at nothing up to £150,000, two per cent to £250,000 and five per cent above, with a separate charge on the net present value of rent under a new lease.⁵⁴ It is part of the same pattern, in which building investment is penalised through slow allowances, taxed again through rates while held, and taxed once more when the asset is traded; and it tilts the field at the margin towards building anew over reusing what already stands, because a firm that builds and

occupies its own premises never triggers it while one that buys an existing building does. SDLT reform is not the subject of this paper, but the reform should be designed in the knowledge that it sits inside a transaction tax that already discourages moving buildings to the firms that would use them best.

The reform removes the penalty on building investment, and it should be implemented so that neither avoidance nor the adjacent taxes put the penalty back. Internally that means relief tied to genuine expenditure, recaptured cleanly on disposal, and protected at the interest and boundary edges. Externally it means a positive change to business rates alongside the allowance, through a widened and longer Improvement Relief, with stamp duty flagged as part of the same bias rather than reformed here.

⁵³ HM Treasury, Autumn Budget 2024, legislated in the Non-Domestic Rating (Multipliers and Private Schools) Act 2025. From the 2026–27 year a higher multiplier may be applied to properties with a rateable value of £500,000 and above, funding lower multipliers for retail, hospitality and leisure. <https://commonslibrary.parliament.uk/research-briefings/cbp-10142/>

⁵⁴ HM Revenue and Customs, “Stamp Duty Land Tax: rates for non-residential and mixed land and property.” Non-residential rates apply in slices, at nil up to £150,000, 2 % to £250,000 and 5 % above, with a separate charge on the net present value of rent under a new lease. SDLT applies in England and Northern Ireland; Scotland and Wales levy their own land transaction taxes. <https://www.gov.uk/stamp-duty-land-tax/nonresidential-and-mixed-rates>

Conclusion

A productive facility is a chain. The structure, the fixtures and the plant and machinery inside it are complementary links, and the output of the whole is set by the weakest of them. A modern production line installed in a shell that is too low, too weakly floored or too poorly powered to take it will not yield a modern return; the building caps the productivity of everything bolted to it. The United Kingdom's tax system relieves the machinery in full and the structure that houses it barely at all, and in doing so it makes the building the weak link. The slow allowance pushes firms to choose not to invest in new more efficient premises but to adapt obsolete ones instead. It weakens the very link on which the return to all the others depends. The penalty is not only a domestic distortion: on this asset the United Kingdom is an international outlier too, ranking 23rd of 38 OECD countries for the relief it gives investment in structures and returning barely two-fifths of the real cost in present value against an OECD average of nearly half. Relieving the structure as fully as its contents removes that artificial weak link at source, and it does so for the asset class the evidence identifies as both the most heavily penalised by a slow allowance and the most responsive when the penalty is lifted.

The objection has always been cost, but it rests on a misunderstanding of what the present system already commits the country to. The existing allowance is not a cheaper alternative to full expensing; it is a slower route to the same place. Held at three per cent a year, its annual cost is already climbing towards the cost of full relief and will reach it by the middle of the next decade, all the while securing almost none of the investment that full relief would unlock. The Exchequer is on course to pay

for generous relief while receiving the investment effect of parsimonious relief. The question is therefore not whether to bear the cost of full expensing on buildings, but whether to bear it productively, and whether to begin capturing the benefit now rather than at the end of a thirty-year drift.

The glide path is what makes that possible. A phased increase in the first-year allowance, set on a permanent trajectory and built on the straight-line machinery the structures allowance already uses, delivers a stronger incentive than the present regime from its first year and converges on full expensing over time, at a fraction of the near-term cost of an immediate switch. It adds no complexity to the system and asks nothing new of business or HMRC, and its pace can be tuned to the headroom of any given Budget. To realise the full dividend it should be made permanent, paired with a business rates regime that does not claw the incentive back through a recurring charge, and accompanied by the planning and grid reform without which much of the gain is capitalised into land rather than turned into building.

Britain has spent the better part of two decades at or near the foot of the G7 for business investment. Moving to full expensing for investment in non-residential buildings is the most powerful lever available to change that: it removes the clearest and least defensible disincentive in the tax code, directs relief to the asset class the evidence says responds most, and does so at a cost the public finances are already set to bear. Few growth measures offer so much.

Technical Annex

The model

The fiscal figures in this paper come from a cohort model of capital allowances on non-residential structures, built to compare the cost of each reform option against the cost of leaving the existing structures and buildings allowance in place. The model costs the reform on new investment only. In each year of the horizon a fresh tranche of qualifying investment is made and begins to draw down relief on whichever schedule is being tested, and the cost of an option is the relief it generates over and above the relief the same investment would have received under the existing three per cent allowance.

Annual qualifying investment is held flat at £11.3 billion, the most recent figure for qualifying expenditure on structures in HMRC's corporation tax statistics, for 2023/24, and the main rate of corporation tax is taken at twenty five per cent. Holding investment flat in cash terms is a deliberate simplification: real investment would be expected to grow, so the assumption is conservative, and the figures are best read as the cost at today's level of building investment rather than as a forecast.

Horizon and cohorts

The model runs over a fifty-year horizon, from 2024/25 to 2073/74, long enough for the existing allowance to mature and for the additional cost of every option to fall away. A new cohort of investment enters in each of the fifty years, so fifty cohorts are modelled, each drawing relief from the year it is incurred until its schedule completes or the horizon is reached.

For the existing allowance, full expensing and neutral cost recovery, every cohort follows the same schedule, so the relief in any year can be read from the cumulative schedule: under flat investment, the relief paid in a given year equals the running total of one cohort's schedule up to that point. The glide path cannot be costed this way, because its first-year allowance differs from one cohort to the next, so each of the fifty cohorts is modelled explicitly on a grid, with its own starting rate and write-down tail, and the annual cost is the sum across all the cohorts that are live in that year.

The options

The glide path raises the first-year allowance from twenty per cent for the first cohort by five percentage points a year, reaching one hundred per cent, full expensing, for cohorts from the seventeenth year onward. The relief not taken in the first year is written off on a tail: a three per cent straight-line tail in the straightline variant, and a three per cent reducing-balance tail in the reducing-balance variant, which defers relief slightly harder and so costs less in the transition. Neutral cost recovery writes the cost off on the existing three per cent schedule but uprates each year's deduction so that its present value, discounted at the firm's cost of capital, equals the full cost; the uprating rate is set equal to that cost of capital, which is what makes the relief presentvalue-neutral for the firm.

The existing stock

The allowances already committed on buildings constructed since the allowance began in 2018 are honoured in full in every scenario, on their current terms. This stock amounts to about £32 billion of qualifying expenditure, with roughly £7.6 billion of tax relief still to be paid out from 2024/25 onward. Because it is identical under the counterfactual and under reform, it cancels out of the additional cost and forms no part of the cost of reform; it enters only the figures for the total cost of relief on non-residential buildings.

The two discount rates

The paper uses two discount rates, for two different questions, and the distinction is deliberate. The value of relief to a business, used for the value-recovery figures and the international comparison, is discounted at a firm's cost of capital, taken at seven point five per cent in nominal terms, a five point five per cent real return plus two per cent inflation. This is the basis the Tax Foundation uses in its cross-country capital cost recovery work, and matching it is what allows the paper's recovery figures to sit alongside the OECD comparison. The cost of the reform to the Exchequer is a question of public spending, and is discounted on the Treasury's Green Book basis: the social time preference rate of three point five per cent in real terms for the first thirty years, falling to three per cent thereafter.

Because the model runs in nominal pounds, the cash flows are deflated to real terms at two per cent and then discounted at the real rate, the order the Green Book requires, rather than discounting nominal flows at a nominal rate.

The two rates differ because they answer to different parties. A firm, often cash-constrained and facing a higher cost of finance, discounts future relief more heavily than the government does. That wedge is the economic heart of the paper: it is because relief deferred is worth so much less to the firm than to the Treasury that the timing of relief, and not only its present value, drives investment. It is also why neutral cost recovery, calibrated to be neutral at the firm's rate, is the most expensive option once costed at the government's lower one, since its deferred and uprated deductions are discounted less heavily by the Exchequer than by the firm they are designed to compensate.

One convention follows from this. The cost that would be scored at a fiscal event is nominal and undiscounted, which is why the five-year cost is shown in nominal terms; the present values are an appraisal overlay used to compare the options over their full lives, not the scored cost. Nominal totals over the full horizon appear in places but should be read with care: because cohorts entering late in the horizon do not have room to complete their relief within it, those totals are horizondependent and understate the lifetime figure, and in the case of neutral cost recovery the nominal total is inflated by the uprating rather than reflecting a larger real cost.

Investment in fixtures and integral features

The reform as costed covers the structure of a building. Its fixtures, fittings and integral features, the electrical, heating and ventilation systems, lifts and similar plant, are relieved not through the structures allowance but through the capital allowances special rate pool, and a reform extending full relief to the whole building rather than the structure alone would bring them into scope. The paper does not cost that extension, because the published data does not separate how new specialrate expenditure is currently divided between the fifty per cent first-year allowance, the six per cent pool and the annual investment allowance, and the cost turns on that division. The additional cost would in any case be modest, since these assets already receive fifty per cent relief in the first year.

What the model does not do

The figures are a static costing: they measure the relief given under each option and do not net off any corporation tax recovered from the additional investment, profits and wages the reform would generate. To that extent they overstate the net cost to the Exchequer, since a reform that raises investment and output recovers part of its cost through higher receipts. The behavioural section sets out why that response would be material, but the costing does not attempt to quantify the revenue feedback.

Sources

Qualifying expenditure and the legacy stock are drawn from HMRC's corporation tax statistics (qualifying expenditure by type). The long-run output, capital-stock and wage effects cited in the paper are from the Tax Foundation's modelling of permanent full expensing, and the present-value recovery figures and OECD ranking are computed on the Tax Foundation's capital cost recovery basis.

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