

Annual Investment Allowance (AIA)

It's all about the timing!

Current position

Most businesses since 2008, irrespective of their size, have been able to claim a 100% allowance on all their qualifying plant or machinery expenditure (including integral features but excluding cars) up to a specified annual maximum.

It gives a deduction of 100% of the cost of items up to the AIA limit against your taxable business profits.

It is a very important tax tool for businesses buying 'expensive' pieces of plant & machinery

Examples of plant & machinery expenditure

- Tractors, combines, harvesters, ploughs etc
- Vans, lorries
- Fork lifts, JCB's etc
- Medical equipment, dental chairs etc
- Office equipment (computers, printers, desks)
- Integral features in buildings

Capital purchases not qualifying for AIA are written down at either 18% or 8% (WDA) on an annual basis.

At present, the limit stands at £500,000 and it was due to fall back to only £25,000 on 1 January 2016.

The temporary increase to £500,000 was designed to stimulate growth in the economy by providing an additional time-limited incentive for businesses – particularly small and medium-sized ones – to increase or bring forward their capital expenditure on plant or machinery.

Examples:

AIA

Business A buys a piece of plant and machinery for £250,000

The purchase qualifies for 100% AIA

£250,000 is deducted from taxable profits

TAX SAVING is £250,000 x 20% corporation tax rate = £50,000

No AIA

Business B buys a piece of plant and machinery for £250,000

The purchase doesn't qualify for AIA (perhaps because they have already used their maximum AIA) so only gets 18% tax allowance

£45,000 is deducted from profits

TAX SAVING IS £45,000 x 20% corporation tax rate = £9,000 (in year 1)

Changes ahead

In his Budget Speech in March 2015, the Chancellor announced that the rate for 2016 was to be set at a more 'realistic' level. The allowance was duly increased from the £25,000 to £200,000 for expenditure incurred on or after 1 January 2016.

The £200,000 limit is to apply for the foreseeable future.

For businesses with a 31 December year end, the new system should cause no particular problem: the AIA limit for 2015 expenditure will remain at £500,000, reducing to £200,000 for expenditure incurred in 2016. However, for those businesses with any other accounting date transitional rules apply.

The transitional rules provide a restriction for the period which commences on 1 January 2016 such that, for expenditure incurred in that second period, no claim can be made for more than the maximum limit for the period.

Maximum AIA for expenditure incurred from 1 January 2016 to the end of the transitional period

Accounting period end:	Maximum AIA:
31 January	£16,667
29 February	£33,333
31 March	£50,000
30 April	£66,667
31 May	£83,333
30 June	£100,000
31 December	£200,000

Examples:

Business C has a 31/03/2016 year end and AIA available = $9/12 \times £500,000$ (period to 31/12/15) plus $3/12 \times £200,000$ (period to 31/03/16) – total £425,000 – but timing of the expenditure is crucial!

If Business C spends £300,000 on qualifying plant & equipment on **1 December 2015** – **all is covered by the AIA available for that period being £375,000 (assuming no other capital expenditure)**

Tax saving is $£300,000 \times 20\%$ corporation tax rate = £60,000

BUT... if Business C spends £300,000 on qualifying plant & equipment on **1 January 2016** the transitional rules come into play:

AIA available = £50,000 restricted under transitional rules

Tax saving is $£50,000 \times 20\%$ corporation tax rate = £10,000

$£250,000 \times 18\%$ WDA $\times 20\%$ corporation tax rate = £9,000
Total = £19,000

Delaying the expenditure by 1 month has cost Business C £41,000 in corporation tax!

So what can you do...

- Plan the timing of any capital expenditure & consider accelerating capital expenditure to before 1 January 2016
- Be aware of and watch the transitional rules
- Discussions with your Accountants regarding the available annual investment allowance

Find out more

For further information, advice and guidance please speak to your usual contact partner.

This is a general illustrative guide only and individual professional advice should be obtained on specific issues. Information is believed correct at time of publication but may alter.

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