

FOCUS ON

Annual Investment Allowance planning

There are some great opportunities to reduce your tax bill by maximizing your Annual Investment Allowance (AIA) claims – the threshold has been set at £200,000 for the foreseeable future from 1 January 2016, providing a stable structure for UK businesses to plan their capital expenditure.

What is the AIA?

The Annual Investment Allowance (AIA) provides 100% tax relief for business expenditure on plant and machinery incurred by sole traders, partnerships and companies.

Expenditure eligible for AIA includes computers, office furniture and equipment, vans, lorries and all kinds of business machines, and certain fixtures in buildings with business uses. It does not cover cars.

From 1 January 2016, the AIA threshold was reduced from £500,000 to £200,000 per annum.

What's the benefit of claiming AIA?

Where expenditure on plant and machinery does not qualify for tax relief as revenue expenditure, then the next best alternative is to claim relief for expenditure on plant and machinery through an AIA claim.

Whilst plant and machinery covered by the AIA receives 100% tax relief, the rate of capital allowance for non-AIA plant and machinery assets is only 18% per annum (or just 8% per annum for assets which fall into the special rate pool such as fixtures and certain pieces of machinery). With an 18% rate of Writing Down Allowances (WDAs), it will typically take 8 years to relieve 80% of the capital expenditure.

“As the AIA can be claimed in the period in which expenditure is incurred, any utilised AIA cannot be deferred or carried forward to a later period”



What AIA planning opportunities are there?

AIA planning opportunities generally arise through:

1. Maximising the overall rate of allowances
2. Avoiding AIA restrictions
3. Changing the business year end

Each of these areas is considered further below.

Maximising the overall rate of allowances

Where you need to spend more than the limit, the business can decide which expenditure should benefit from the AIA – with surplus expenditure in the period being dealt with under the normal capital allowances rules.

So where assets are bought that fall into the ‘special rate’ pool (with 8% writing down allowances) - they are also generally eligible for the AIA. When allocating the AIA, it will often be advantageous to first allocate the AIA to assets in the special rate pool, which would otherwise provide the lowest rate of relief of 8%.

Avoiding AIA restrictions

Businesses under common control are entitled to only one single AIA between them.

For groups of companies, the allowance can be allocated as the companies choose, which means that consideration needs to be given as to how the AIA is allocated in conjunction with how losses are allocated for group relief purposes and group tax rate planning.

Changing the business year end

Where a taxpayer has a chargeable period which is more or less than 12 months, the maximum AIA is proportionally increased or reduced.

However, there may be benefits in changing the business year end to ensure that the maximum AIA is available for the period of the increased £500,000 threshold. Otherwise the complex transitional provisions could either limit the availability of the full allowance, or result in it arising in the ‘wrong’ period in terms of your business expenditure plans.

Nonetheless, the commercial and additional administrative complications arising from any change to the accounting reference date must also be carefully considered.

Contact us

For further information, please contact a member of our tax team.

Visit our website

www.macintyreHUDSON.co.uk



MHA MacIntyre Hudson is the trading name of MacIntyre Hudson LLP, a limited liability partnership, registered in England with registered number OC312313. A list of partners' names is open for inspection at its registered office, 201 Silbury Boulevard, Milton Keynes MK9 1LZ. Registered to carry on audit work in the United Kingdom and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. An independent member of MHA, a national association of UK accountancy firms. The term 'partner' or 'partners' indicates that the person (or persons) in question is (or are) a member(s) of MacIntyre Hudson LLP or an employee or consultant of its affiliated businesses with equivalent standing and qualifications. Partners and directors acting as administrators or administrative receivers contract as agents and without personal liability. Further information and links to the respective regulators and appointed individuals' qualifications can be found via our website www.macintyreHUDSON.co.uk/information.html

MHA MacIntyre Hudson is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity and each describes itself as such. MHA MacIntyre Hudson is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International's behalf. None of Baker Tilly International, MHA MacIntyre Hudson, nor any of the other member firms of Baker Tilly International has any liability for each other's acts or omissions. Arrandco Investments Limited is the registered owner of the UK trade mark for Baker Tilly and its associated logo.