

### Capital allowance change from 1 January 2013

In the Autumn Statement, the Chancellor announced a tenfold increase in the amount of Annual Investment Allowance (AIA) available. The AIA provides a tax write off against profits for expenditure incurred on plant and machinery by businesses and owners of commercial property. It is not available for expenditure on cars.

#### Changes to the AIA

The previous change in the AIA reduced the maximum annual AIA from £100,000 to £25,000 for expenditure incurred on or after 6 April 2012 (1 April 2012 for companies).

For expenditure incurred on or after 1 January 2013, the maximum annual AIA becomes £250,000. This is for a two-year period and so the annual AIA reduces to £25,000 for expenditure incurred after 1 January 2015.

On the face of it, deferring expenditure till after 31 December 2012 seems an easy and straightforward decision to make. However, care is needed in some circumstances if the accounting year end of your business is not 31 December.

As the accounting periods of many businesses span this date, a pro rata calculation of the maximum entitlement is required. Where a business has an accounting period that spans 31 December 2012, the maximum allowance for that period is potentially the sum of:

- the maximum AIA entitlement based on the £100,000 annual cap for the portion of the accounting period falling before 1 or 6 April 2012;
- the maximum AIA entitlement based on the £25,000 cap for the portion of the accounting period falling on or after 1 or 6 April 2012 to 31 December 2012; and
- the maximum AIA entitlement based on the £250,000 cap for the portion of the accounting period falling on or after 1 January 2013.

#### Example

A business makes up its accounts to 30 June annually. For the year to 30 June 2013, the limit is calculated as follows:

July 2012 – December 2012	$6/12 \times £25,000 =$	£12,500
January 2013 – June 2013	$6/12 \times £250,000 =$	£125,000
Total		£137,500

#### Does it matter when the expenditure is incurred in the accounting period?

The example above does not mean that the business can spend £137,500 at any time in the accounting period and claim AIA on that amount. For expenditure incurred before 1 January 2013, new legislation will be introduced to limit the maximum figure available. The maximum allowance will be the AIA that would have been due for the whole of the accounting period to 30 June 2013, if the increase in AIA had not taken place. This would have meant that the company would have been entitled to £25,000 for the 12 months and so this is the limit for the six months to 31 December 2012.

In the example, if the company had spent £40,000 in the first six months of the accounting period relief would be limited to £25,000. The company can spend £112,500 (£137,500 - £25,000) in the six months to 30 June 2013 which will qualify for AIA.

If the company has not incurred any expenditure in the first six months, £137,500 will be available for expenditure between 1 January and 30 June 2013.

If the company is planning capital expenditure in excess of this figure, then it may be more beneficial to defer the expenditure (or part of the expenditure) until after the end of the current accounting period as the full £250,000 AIA may be available. In the example, the company could spend £250,000 in July 2013.

On 1 January 2015, the AIA will revert back to £25,000. This will mean that the same company will have an AIA in later periods as follows:

Accounting period to 30 June 2014	£250,000
Accounting period to 30 June 2015 (special rules apply)	£137,500

### Further points to be aware of

- In some situations, a business may not be entitled to the AIA as computed above as the AIA limits may need to be shared with other businesses which are under common ownership.
- There are special rules for determining the date of when capital expenditure is incurred for tax purposes in some circumstances. Please contact us if a contract is being signed with a credit period of more than four months or a hire purchase agreement is being entered into.
- If the accounting period straddles not only 1 January 2013 but also 1 or 6 April 2012, further restrictions are placed on the availability of AIA. The restrictions are complex. Please talk to us before incurring further expenditure in the current accounting period as these further restrictions may apply.
- The special rules are published as draft legislation and so some of the detail may change. Please contact us if you are about to incur significant expenditure on plant and machinery.

### What to do

Despite the complexity, the increase in AIA is positive for businesses. However, careful planning may be required to ensure that capital allowances are maximised. If you would like to discuss these changes in more detail, please do get in touch.