

Annual Investment Allowance – beware of the trap

You may be aware that, following the last Budget, the Annual Investment Allowance (AIA) available to a business on qualifying expenditure incurred on plant and machinery is being reduced from the current rate of £100,000 to just £25,000 for expenditure incurred on or after 1 April 2012.

What may not be so apparent is the way in which this will affect businesses whose accounting period straddles this date and in particular the "trap" which can impact on the allowances available for the unwary.

Where a company's accounting period begins before 1 April 2012 and ends on or after that date, the maximum AIA available for that accounting period is the aggregate of the amounts calculated as if the period was split into two parts, one before and one after 1 April 2012.

For example:

A Company Ltd had an accounting period ending on 31 October.

For the year to 31 October 2012 its maximum AIA entitlement is calculated on the basis of two periods: from 1 November 2011 to 31 March 2012, and from 1 April 2012 to 31 October 2012

i.e: $152/366 \times £100,000 + 214/366 \times £25,000 = £56,148$

However, there are also complications for those companies which do not incur any qualifying expenditure in the period to 31 March 2012.

If in the above example A Company Ltd had not incurred any qualifying expenditure in the period from 1 November 2011 to 31 March 2012, but instead had bought qualifying plant worth £30,000 in the period from 1 April 2012 to 31 October 2012, the maximum AIA available would be restricted to £14,583.

i.e: $7/12 \times £25,000$

You may therefore need to consider your capital allowance expenditure carefully in the period up to 31 March 2012. Where possible, you should ensure that expenditure is incurred in an accounting period prior to one which straddles 31 March 2012, in which case the full £100,000 AIA will still be available. Where this is not possible then you should try to ensure that there is pre - 31 March 2012 expenditure sufficient to utilise the maximum available in that period.

Our in-house specialist tax team would be delighted to assist you further if you have any queries about the Annual Investment Allowance, or indeed any other specialist tax query. Please contact Alan Rolfe, Tax Manager on 023 8046 1200 or email alan.rolfe@hwb-accountants.com .