

# Allowances

## Capital Allowances

- Topical issues, opportunities and changes ahead

This factsheet considers recent developments and announcements in the core area of plant and machinery capital allowances including the important forthcoming changes for 2012.

Opportunities for maximising relief and avoiding pitfalls are highlighted, including the critical issues of timing and identification of qualifying capital expenditure.

1 April 2011 welcomed in a reduction of corporation tax rates of at least one percent for all companies.

However, to pay for the cost of that reduction, two key changes to capital allowance rates on plant and machinery are set to impact from April 2012. These changes affect not only companies but all qualifying businesses that claim capital allowances.

## Changes to the Annual Investment Allowance (AIA)

The AIA provides 100% tax relief on most types of plant and machinery (not cars) including integral features for all forms of qualifying business.

Since April 2010 the maximum annual limit available has been £100,000 but this was reduced to £25,000 for expenditure incurred on or after 1 April 2012 for companies and 6 April 2012 for the self-employed in business.

An apportionment of the limits is required if the accounting period straddles 1 or 6 April 2012. This will be the case for many businesses.

### Example 1

Company P makes up its accounts to 30 September annually. For the year to 30 September 2012, the limit is calculated as £62,500 as follows:

1 October 2011 - 31 March 2012  $\frac{6}{12} \times £100,000 = £50,000$   
1 April 2012 - 30 September 2012  $\frac{6}{12} \times £25,000 = £12,500$

However, a restriction is set so that, for expenditure incurred in the part of the accounting period falling on or after 1 or 6 April 2012, the maximum entitlement is given only by reference to the appropriate share of the £25,000 limit. Using Company P in example 1 this would be  $£25,000 \times \frac{6}{12} = £12,500$ .

### Example 1 continued

Company P is planning on spending £60,000 on purchasing machinery. If this is done in the six months to 31 March 2012, the whole amount would qualify for AIA as it is within the overall limit for the company's accounting period. However, if instead that same purchase was made in the second six months to 30 September 2012, only £12,500 would qualify for AIA due to the cap which applies from 1 April 2012.

### Comment

The timing of expenditure in an accounting period affected by this change could have an important impact on the tax relief available and hence the taxable profits of a business. We can help you plan what action would suit your business requirements in respect of this change taking into account both tax saving and cash flow issues.



## Changes to Writing Down Allowances (WDAs)

Annual WDAs are available to relieve qualifying plant and machinery expenditure not relieved by other capital allowances such as AIA.

There are two rates. A rate of 20% for plant and machinery generally. This includes cars up to and including 160 CO<sub>2</sub> emissions and a 10% rate for the special rate pool which applies to integral features, long life plant and cars in excess of 160 CO<sub>2</sub> emissions.

These WDA rates reduced from 1 April 2012 for companies and from 6 April 2012 for the self employed. The annual rates changed from:

- 20% to 18% on expenditure allocated to the main plant pool and
- 10% to 8% on expenditure allocated to the special rate pool.

Hybrid rates apply for accounting periods which span 1 or 6 April 2012. The example below demonstrates the principle of how this operates but in practice this calculation has to be done on a strict daily basis.

### Example 2

Company A has an accounting period of 12 months to 31 December 2012, the main pool rate is calculated as:

$$(3/12 \times 20\%) 5\% + (9/12 \times 18\%) 13.5\% = 18.5\%$$

The effect of these changes will mean that the period over which tax relief is obtained is longer than previously. In fact according to the Government - 'It is estimated that approximately 2 million businesses could see an increase in their tax liability as a direct result of this measure.' So, taking advantage of other opportunities, which may accelerate capital allowances and the corresponding tax relief, becomes more pertinent. One such way of obtaining more capital allowances earlier is to make a 'short life asset' election where this is available.

Please do contact us for tailored capital expenditure and allowance advice for your business requirements so that tax savings can be maximised.

### Comment

Although the Annual Investment Allowance will fall to £25,000 this should prove sufficient for most small businesses.



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