

Annual Investment Allowance

Information on the permanent limit

What is the situation?

The Annual Investment Allowance (AIA) is a capital allowance which applies for purchased assets which are used and kept within a business. Some or all of the assets value can then be deducted from profits before tax is applied.

Many businesses can claim an AIA for expenditure on plant and machinery (excluding cars). In many cases (depending on the business level of expenditure), this may mean that you can claim your entire expenditure on qualifying items against this allowance.

From January 2019 the AIA limit was set at £1,000,000*. This limit was extended in the Autumn 2021 UK budget and will revert back to £200,000 on 1 April 2023. This limit is set at a level to offer support for businesses wishing to invest in plant and machinery and to help stimulate the economy. The AIA cannot be carried forward and be used in future periods; it is an in-year relief only and a new AIA will be given each year to businesses.

For more information on the allowance and the items that are covered by the AIA visit: <https://www.gov.uk/capital-allowance/annual-investment-allowance>**

* As announced in the budget of October 2018.

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Timing considerations

AIA can only be claimed in the accounting period an asset is purchased. Under the rules, the date is assigned as:

- ▶ The day a contract is signed, if payment is due within four months
- ▶ The day payment is due, if it is due more than four months after the signing of the contract.

What is the scope of AIA?

AIA allowances can be claimed on plant and machinery assets that are kept and used within a business.

Qualifying assets include:

- ▶ Business machines, such as printing presses, lathes and machine tools
- ▶ Computerised/computer aided machinery, including robotic machines
- ▶ Computer hardware and qualifying software
- ▶ Tractors, combine harvesters and other agricultural machinery
- ▶ Office furniture and equipment
- ▶ Vans, lorries, commercial vehicles and equipment

How Bank of Scotland can help

Businesses can use our Hire Purchase (HP) product to purchase new plant and machinery assets outright, then spread payments over an agreed time frame.

Combined with the benefits of AIA, HP offers our business customers the opportunity to invest with budgetary certainty in the latest equipment to support their plans. The new permanent limit is aimed at helping our customers accelerate the timing of tax relief on qualifying capital expenditure.

Please contact our Asset Finance team on [0345 602 4796](tel:03456024796) or call your Relationship Manager on their usual number.

AIA capital allowance cannot be claimed from:

- ▶ Leases
- ▶ Buildings, including doors, gates, shutters, mains water and gas systems
- ▶ Land and structures, such as bridges, roads and docks
- ▶ Items used only for business entertainment, such as a yacht
- ▶ Cars, for which writing down allowances could be claimed instead.

Additionally, further exclusions apply to:

- ▶ Assets used outside of the business - capital allowances would need to be reduced by the amount the asset is used outside the business
- ▶ Mixed partnerships - if one of the partners is registered as a company then the business is unable to claim AIA.

If you are in any doubt as to the appropriateness of making use of the Annual Investment Allowance, you should consult with your professional adviser.

This document should not be considered as tax advice, you should seek your own tax advice prior to making any final decisions in relation to acquiring any assets.

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Contact your relationship manager

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Example

The example below provides an indicative view of the potential tax savings a customer could receive by purchasing an asset valued at £750,000 and compares it with a purchase of £1,250,000.

	Eligible expenditure: £750,000	Eligible expenditure: £1,250,000
Annual Investment Allowance (AIA)	£1,000,000	£1,000,000
AIA Utilised	£750,000	£1,000,000
Remaining balance for Writing Down Allowances (WDA)	£0	£250,000
WDA Rate	18%	18%
WDA	£0	£45,000
Total Allowances	£750,000	£1,045,000
Corporate Tax Rate	19%	19%
Indicative tax saving	£142,500	£198,550

Assumptions:

Maximum AIA is available. Accounting period is January to December. For other accounting periods the AIA would require pro-rating. Writing Down Allowance rate of 18% on a reducing balance basis. Main Corporation Tax rate is payable and sufficient profit generated to realise benefit of AIA or WDA.

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