

Capital Allowances

Annual Investment Allowance (AIA) reduction

The Annual Investment Allowance (AIA) which allows for a 100% deduction for qualifying expenditure on plant and machinery was temporarily increased to £1m per annum for the period 1 January 2019 to 31 December 2020.

The allowance is due to reduce back to £200k after 31 December 2020.

What qualifies?

- Plant and machinery
- Costs of demolishing plant and machinery
- Some fixtures e.g. fitted kitchens, bathroom suites, fire alarms and CCTV systems
- Alterations to a building to install other plant and machinery
- Integral features

What doesn't qualify?

- Cars
- Assets previously owned personally
- Buildings, including doors, gates, shutters, mains water and gas systems

- Land and Structures, for example bridges, roads, docks

Integral features

- Lifts, escalators and moving walkways
- Space and water heating systems
- Air conditioning and air cooling systems
- Hot and cold water systems (but not toilet and kitchen facilities)
- Electrical systems, including lighting systems
- External solar shading

Integral features in excess of the AIA will only qualify for capital allowances at 6% rather than 18%.

Where businesses have accounting periods that straddle the end of the calendar year, the allowance must be apportioned to calculate the maximum qualifying expenditure.

For example, businesses with a 31 March year end will qualify for the following maximum allowance: $(9/12 \times £1m = £750,000) + (3/12 \times £200,000 = £50,000) = £800,000$.

However, care needs to be taken with the timing of expenditure as a maximum of £50,000 of the £800,000 can be spent in the period from 1 January 2021 to 31 March 2021. Therefore, if significant expenditure is planned it may be worth accelerating such expenditure to before 31 December 2020.

Example

A Limited company draws up its accounts to 31 March each year. The company spends £800,000 on a new piece of machinery on 1 December 2020.

The company claims the AIA in respect of the expenditure and therefore 100% relief for tax. The tax saving will therefore be £152,000 (£800,000 x 19%).

If, however, the company delays the expenditure until 1 January 2021, then the maximum AIA that can be claimed is £50,000. The remaining expenditure (£750,000) will instead qualify for writing down allowances at 18%. The maximum relief for tax will therefore be £185,000 (£50,000 + (£750,000 x 18%)) and the tax saving will reduce to £35,150 (£185,500 x 19%).

Delaying the payment by 1 month will therefore cost the company an additional £116,850 in tax.

The table below outlines the maximum allowance which will be available depending upon the business year end together with how much of this allowance will be available for purchases after 1 January 2021:

Business Year End	Maximum AIA for 2021 Year End	Of which the maximum available after 1 January 2021
31 January 2021	£933,333.33	£16,666.67
28 February 2021	£866,666.67	£33,333.33
31 March 2021	£800,000.00	£50,000
30 April 2021	£733,333.33	£66,666.67
31 May 2021	£666,666.67	£83,333.33
30 June 2021	£600,000.00	£100,000.00
31 July 2021	£533,333.33	£116,666.67
31 August 2021	£466,666.67	£133,333.33
30 September 2021	£400,000.00	£150,000.00
31 October 2021	£333,333.33	£166,666.67
30 November 2021	£266,666.67	£183,333.33
31 December 2021	£200,000.00	£200,000.00

How can we help?

Here at Smith Cooper, our team of dedicated tax experts are on hand to help you plan a tailored and tax efficient approach to tax affairs that ensures you and your business maximise the tax opportunities available. We can help you navigate the complexities governing taxes, making them easier to understand and beneficial to you. [Get in touch with our experts today.](#)



Richard Stanley
Partner
richard.stanley@smithcooper.co.uk



Catherine Desmond
Partner
catherine.desmond@smithcooper.co.uk