Briefing Note - Capital Allowances

£250k capital investment tax free allowance

Could your business benefit from the new £250k capital investment tax free allowance?

Last December, in the hope of giving the UK Economy a much-needed boost, the Chancellor announced a significant hike in the Annual Investment Allowance (AIA) limit for companies' capital expenditure.

For a two-year period from 1 January 2013 businesses can enjoy 100% tax relief on capital purchases that fall within the new £250,000 annual allowance (previously £25,000).

In simple terms, a business with profits before tax of up to £250,000 could reduce its income/corporation tax bill to zero by purchasing new equipment to the same value.

Capital purchases that attract the 100% tax relief

Most items of capital equipment qualify, including:

- Computers & IT
- Audio Visual equipment
- Machinery & engineering tools
- Manufacturing & production equipment
- Office furniture and certain fixtures
- Medical & scientific equipment
- Dental equipment
- Plant and machinery within a building

A 100% tax-free allowance is available to all businesses for expenditure on the purchase of new (not second hand) environmentally friendly equipment such as energy saving boilers, refrigeration equipment, lighting, heating and water systems. This relief is in addition to AIA.

Could my business qualify?

The increased AIA allowance will enable most businesses, including sole traders, partnerships and limited companies, to offset up to £250,000 of capital expenditure against tax from January 1st 2013 to January 1st 2015.

The only business structures which are not eligible are mixed partnerships (ie, partnerships comprised of both individuals and companies) and trustees.

What's excluded?

There are special rules for cars and generally cars are not eligible for the AIA, but do check the specifics of the vehicle (particularly its CO_2 emission rating) with your accountant.

Does the way I purchase the equipment affect my allowance?

Capital allowances are not generally affected by the way in which the business pays for the purchase. So where an asset is acquired on hire purchase (HP), allowances are generally given as though they were an outright cash purchase and subsequent instalments of capital are ignored.

Any interest or other finance charges on an overdraft, loan, HP or finance lease agreement to fund the purchase is a revenue tax deductible business expense. It is not part of the capital cost of the asset.

Also, if a business rents capital equipment (often referred to as an operating lease) then as with other rents this is a revenue tax deductible expense so no capital allowances are available.

Timing of Expenditure

Where an accounting period straddles 1 January 2013 transitional rules apply which mean that there may be benefit in delaying the expenditure until after the accounting period has ended. For example, with a 31 March 2013 year end, the maximum expenditure qualifying for AIA incurred in the 3 months to 31 March 2013 is £62,500 (1/4 of £250,000). If higher expenditure is to be incurred, it may be worth delaying to 1 April 2013.

What to do next?

The rules for capital allowances are complex and time is of the essence if you want to make use of the increased AIA before it reverts back to £25,000 on the 1 January 2015. Talk to your accountant or contact us on 01483 423607 about how to make the most of the tax relief on offer in the time available.

We have helped a number of businesses calculate the tax-free options relevant to their specific circumstances. We have also helped them make the most advantageous claims to their business by advising on matters such as the timing of purchases and sales of capital assets and expenditure in buildings which qualifies for plant allowances.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered above.

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