

## Could your business benefit from the new £500k capital investment tax deduction allowance?

In December 2012, 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. This was further enhanced in the 2014 Budget.

*Subject to the Finance Bill 2014 being passed businesses can enjoy 100% tax relief on capital purchases that fall within the new £500,000 annual allowance (previously £250,000) for expenditure incurred after 1 April 2014 by companies and 5 April 2014 for individuals until 31 December 2015.*

In simple terms, a business with profits before tax of up to £500,000 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

### Could my business qualify?



The increased AIA allowance will enable most businesses, including sole traders, partnerships and limited companies, to offset up to £500,000 of capital expenditure against tax from 6 April 2014 (1 April 2014 for companies) to 31 December 2015

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

equipment, lighting, heating and water systems. This relief is in addition to AIA.

### 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 CO2 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

For companies where an accounting period straddles 1 April 2014 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 30 June 2014 year end, the maximum expenditure qualifying for AIA incurred in the 3 months to 30 June 2014 is £125,000 (1/4 of £500,000). If higher expenditure is to be incurred, it may be worth delaying to 1 July 2014.

### 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 2016. Talk to your usual Shipleys contact 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.**

#### London

10 Orange Street  
Haymarket  
London  
WC2H 7DQ

T +44 (0)20 7312 0000  
F +44 (0)20 7312 0022  
E [advice@shipleys.com](mailto:advice@shipleys.com)

#### Godalming

3 Godalming Business  
Centre Woolsack Way  
Godalming  
Surrey GU7 1XW

T +44 (0)1483 423607  
F +44 (0)1483 426079  
E [godalming@shipleys.com](mailto:godalming@shipleys.com)

Shipleys is a member of AGN International, a worldwide association of separate and independent accounting and consulting firms.

Registered to carry on audit work in the UK and Ireland, and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

© Shipleys LLP 2014 04

