

# Annual investment allowance: increase to £250,000 for two years

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## Who is likely to be affected?

Businesses investing more than £25,000 a year in plant or machinery from 1 January 2013.

## General description of the measure

Legislation will be introduced in Finance Bill 2013 to increase the maximum amount of the annual investment allowance (AIA) from £25,000 to £250,000 for a temporary period of two years from 1 January 2013.

## Policy objective

This measure is designed to stimulate growth in the economy by providing an additional time-limited incentive for businesses to invest in plant or machinery.

## Background to the measure

This temporary increase in the amount of the AIA was announced at Autumn Statement 2012.

## Detailed proposal

### Operative date

The measure will have effect from 1 January 2013 for all businesses (whether within the charge to corporation tax (CT) or within the charge to income tax (IT)). Where a business has a chargeable period that straddles either or both of: (i) the operative date of the increase on 1 January 2013, or (ii) the operative date of the decrease to £25,000 on 1 January 2015 (that is, after the two year period of the increase has elapsed), the transitional rules outlined below will apply.

### Current law

Since 1 April 2008 (CT) and 6 April 2008 (IT) most businesses, regardless of size, have been able to claim the AIA on their expenditure on plant or machinery, up to a specified annual amount each year (subject to certain conditions mentioned below). With effect from 1 April 2012 (CT) or 6 April 2012 (IT) the maximum amount of the AIA became £25,000 for qualifying expenditure incurred on or after those dates.

Businesses are able to claim the AIA in respect of their expenditure on both general and "special rate" plant and machinery (although there are certain exceptions, set out in section 38B of the Capital Allowances Act 2001 (CAA), the main exception being expenditure on cars). The AIA is effectively a 100 per cent allowance that applies to qualifying expenditure up to a specified annual limit or cap.

Where businesses spend more than the annual limit, any additional expenditure is dealt with in the normal capital allowances regime, entering either the main rate or the special rate pool, where it will attract writing-down allowances at the 18 per cent or 8 per cent rate respectively.

## **Proposed revisions**

Legislation will be introduced in Finance Bill 2013 to revise the CAA. This will increase the AIA from £25,000 to £250,000 from 1 January 2013, for all businesses (whether within the charge to CT, or within the charge to income tax) for a temporary period of two years.

A business with a calendar year chargeable period will be entitled to a maximum AIA of £250,000 for each of its 2013 and 2014 chargeable periods, and the business' maximum entitlement will revert to £25,000, for its 2015 chargeable period.

### Chargeable periods spanning date of increase to £250,000

A business with a chargeable period that spans the operative date of the increase on 1 January 2013 may have a chargeable period that began either (i) on or after 1 or 6 April 2012 (the date when the AIA maximum was reduced to £25,000, for CT or income tax purposes respectively) or (ii) before the date of the April 2012 reduction. The transitional provisions for each of these two groups will be outlined separately below.

#### Businesses in category (i)

A business in category (i), with a chargeable period that began on or after the date of the AIA reduction, will calculate its maximum AIA for that period in two parts:

- (a) its AIA entitlement, based on the previous £25,000 annual cap for the portion of a year falling before 1 January 2013; and,
- (b) its AIA entitlement, based on the new £250,000 cap for the portion of a year falling on or after 1 January 2013.

#### Example

A company with a financial year chargeable period from 1 April 2012 to 31 March 2013 would calculate its maximum AIA entitlement based on:

- (a) the proportion of a year from 1 April 2012 to 31 December 2012, that is,  $9/12 \times £25,000 = £18,750$ ; and,
- (b) the proportion of a year from 1 January 2013 to 31 March 2013, that is,  $3/12 \times £250,000 = £62,500$ .

The company's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) =  $£18,750 + £62,500 = £81,250$ , although in relation to (a) (the part period falling before 1 January 2013, no more than a maximum of £25,000 of the company's actual expenditure in that particular part period would be covered by its transitional AIA entitlement (the maximum claimable before the increase to £250,000).

### Businesses in category (ii)

A business in category (ii) above, with a transitional chargeable period that began before the date of the AIA reduction on 1st or 6th April 2012 (as the case may be) will calculate its maximum AIA for that period in three parts:

- (a) its AIA entitlement, based on the £100,000 annual cap that applied before 1 or 6 April 2012 for the portion of a year falling before that date; and,
- (b) its AIA entitlement, based on the current £25,000 cap for the portion of a year from 1 or 6 April (for CT or IT purposes respectively) to 31 December 2012; and,
- (c) its AIA entitlement, based on the new cap of £250,000 for the portion of a year falling on or after 1 January 2013.

#### Example

A company with a transitional chargeable period from 1 March 2012 to 28 February 2013 would calculate its maximum AIA entitlement based on:

- (a) the proportion of a year from 1 March 2012 to 31 March 2012, that is,  $1/12 \times £100,000 = £8,333$ ; and,
- (b) the proportion of a year from 1 April 2012 to 31 December 2012, that is,  $9/12 \times £25,000 = £18,750$ ; and,
- (c) the portion of a year from 1 January 2013 to 28 February 2013, that is  $2/12 \times £250,000 = £41,667$ .

The company's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) + (c) =  $£8,333 + £18,750 + £41,667 = £68,750$ , although in relation to part (b) (the part period falling on or after 1 April 2012 and before 1 January 2013) no more than a maximum of £22,917 (that is,  $11/12 \times £25,000$ ) of the company's actual expenditure in that particular part period would be covered by the company's maximum AIA entitlement. (The restriction to £22,917 is a consequence of the transitional rules applying to the reduction from £100,000 to £25,000.)

### Chargeable periods spanning date of return to £25,000

In the next year (chargeable periods relating to the year 2013-14), businesses would be entitled to the new AIA maximum of £250,000. However, in relation to the year following, that is, 2014-15, businesses with chargeable periods spanning 1 January 2015 (that is, the ending of the two-year temporary increase in the AIA) would calculate their maximum allowance for that transitional period in two parts:

- (a) the AIA entitlement, based on the temporary AIA cap of £250,000 for the portion of a year falling before 1 January 2015; and,
- (b) the AIA entitlement, based on the reversion to the current AIA cap of £25,000 for the portion of a year falling on or after 1 January 2015.

#### Example

A company with a financial year chargeable period from 1 April 2014 to 31 March 2015 would calculate its maximum AIA entitlement for its transitional, 2014-15, chargeable period based on:

- (a) the proportion of a year from 1 April 2014 to 31 December 2014, that is,  $9/12 \times £250,000 = £187,500$ ; and,
- (b) the proportion of a year from 1 January 2015 to 31 March 2015, that is  $3/12 \times £25,000 = £6,250$ .

The company's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) = £187,500 + £6,250 = £193,750, although in relation to (b) (the part period falling on or after 1 January 2015), no more than £6,250 of the company's actual expenditure in that particular part period would be covered by its maximum AIA entitlement for this period as a whole. (Again the restriction to £6,250 is a consequence of the transitional rules applying to the reduction from £250,000 to £25,000.)

#### Further details

The more detailed rules about entitlement to an AIA (for example, in relation to companies that fall within the company law definition of a group, or when businesses under common control are regarded as "related" for AIA purposes) are based on similar time-apportioned principles as applied to the rules in sections 51K of CAA (operation of the annual investment allowance where restrictions apply). Details are contained in the relevant draft legislation and relative explanatory note as published.

### **Summary of impacts**

<b>Exchequer impact (£m)</b>	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-305	-670	-910	-400	+300	+235
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement.					
<b>Economic impact</b>	By accelerating the relief on qualifying expenditure between £25,000 and £250,000, this measure will provide an incentive, particularly to small and medium-sized businesses, to increase or bring forward their capital expenditure on plant and machinery.					
<b>Impact on individuals and households</b>	Capital allowances can only be claimed in the course of a business. There is no evidence to indicate that the measure would have any impacts on groups sharing protected characteristics.					
<b>Equalities impacts</b>	The proposal does not impact on the equality of groups with protected characteristics.					

<p><b>Impact on business including civil society organisations</b></p>	<p>It is estimated that around 90,000 businesses, spending over £25,000 a year on qualifying plant and machinery, would benefit from this accelerated tax relief measure. It increases the net present value of capital allowances to investors in plant or machinery and provides a cash flow benefit, likely to be of most help to small and medium-sized businesses.</p> <p>This measure is expected to result in a negligible increase in one off compliance costs for businesses, as they will need to familiarise themselves with the change and carry out a small update to their software to take into account the increase in AIA.</p> <p>The impacts on businesses' on-going administrative burdens are also expected to be negligible as most of the businesses affected are likely to still need to calculate some capital allowances on a year-by-year basis for previously pooled expenditure and/or new expenditure not qualifying for the temporary £250,000 AIA.</p> <p>This measure is not expected to have a significant impact on civil society organisations.</p>
<p><b>Operational impact (£m) (HMRC or other)</b></p>	<p>There are additional IT and compliance costs for HMRC in implementing a temporary two-year increase in the AIA from 1 January 2013. However, HMRC currently assess that it will be possible to subsume these additional costs in their business as usual budget.</p>
<p><b>Other impacts</b></p>	<p><u>Small firms impact test</u>: precise data on the impact on small firms (those with less than 20 full-time employees) is not available as businesses are not required to give this information on tax returns. However, as the qualifying expenditure of most small firms is already fully covered by the current AIA threshold of £25,000, most small firms are unlikely to be affected. Small firms investing over the current AIA threshold are expected to benefit from the temporary increase in the AIA, as it will potentially provide them with a tax timing benefit.</p> <p>Other impacts have been considered and none have been identified.</p>

## Monitoring and evaluation

The measure will be monitored through information collected from tax returns.

## Further advice

If you have any questions about this change, please email Joy Guthrie (email: joy.guthrie@hmrc.gsi.gov.uk) or Malcolm Smith (email: malcolm.smith3@hmrc.gsi.gov.uk) or telephone 020 7147 2610.

## **1 Temporary increase in annual investment allowance**

- (1) In relation to expenditure incurred during the period of two years beginning with 1 January 2013, section 51A of CAA 2001 (entitlement to annual investment allowance) has effect as if in subsection (5) for “£25,000” there were substituted “£250,000”.
- (2) Schedule 1 contains provision about chargeable periods which straddle 1 January 2013 or 1 January 2015.

## SCHEDULE 1

Section 1

## ANNUAL INVESTMENT ALLOWANCE: PERIODS STRADDLING 1 JANUARY 2013 OR 1 JANUARY 2015

*Chargeable periods which straddle 1 January 2013*

- 1 (1) This paragraph applies in relation to a chargeable period which begins before 1 January 2013 and ends on or after that date (“the first straddling period”).
- (2) The maximum allowance under section 51A of CAA 2001 for the first straddling period is the sum of each maximum allowance that would be found if –
  - (a) so much (if any) of the first straddling period as falls before the relevant date,
  - (b) so much of the first straddling period as falls on or after the relevant date but before 1 January 2013, and
  - (c) so much of the first straddling period as falls on or after 1 January 2013,were each treated as separate chargeable periods.
- (3) But this is subject to paragraphs 2 and 3.
- (4) In this Schedule “the relevant date” means –
  - (a) for the purposes of corporation tax, 1 April 2012;
  - (b) for the purposes of income tax, 6 April 2012.

*Straddling period beginning before the relevant date*

- 2 (1) This paragraph applies where the first straddling period begins before the relevant date.
- (2) So far as concerns expenditure incurred before the relevant date, the maximum allowance under section 51A of CAA 2001 for the first straddling period is what would have been the maximum allowance for that period if the amendment made by section 1(1) had not been made.
- (3) So far as concerns expenditure incurred on or after the relevant date but before 1 January 2013, the maximum allowance under section 51A of CAA 2001 for the first straddling period is –

A – B

- (4) In sub-paragraph (3) –

- (a) “A” means the amount that would have been the maximum allowance for the period beginning on the relevant date and ending at the end of the first straddling period if—
    - (i) that period had been a separate chargeable period, and
    - (ii) the amendment made by section 1(1) had not been made;
  - (b) “B” means the amount (if any) by which—
    - (i) the AIA expenditure incurred in the period mentioned in paragraph 1(2)(a) in respect of which a claim for an annual investment allowance is made, exceeds
    - (ii) the maximum allowance under section 51A of CAA 2001 for that period if it were treated as a separate chargeable period.
- (5) So far as concerns expenditure incurred on or after 1 January 2013, the maximum allowance under section 51A of CAA 2001 for the first straddling period is the sum of each maximum allowance that would be found if the period mentioned in paragraph 1(2)(b) and the period mentioned in paragraph 1(2)(c) were each treated as separate chargeable periods.

*First straddling period beginning on or after the relevant date*

- 3 (1) This paragraph applies where no part of the first straddling period falls within paragraph 1(2)(a).
- (2) So far as concerns expenditure incurred before 1 January 2013, the maximum allowance under section 51A of CAA 2001 for the first straddling period is to be calculated as if the amendment made by section 1(1) had not been made.

*Chargeable periods which straddle 1 January 2015*

- 4 (1) This paragraph applies in relation to a chargeable period (“the second straddling period”) which begins before 1 January 2015 and ends on or after that date.
- (2) The maximum allowance under section 51A of CAA 2001 for the second straddling period is the sum of each maximum allowance that would be found if—
  - (a) the period beginning with the first day of the chargeable period and ending with the day before 1 January 2015, and
  - (b) the period beginning with 1 January 2015 and ending with the last day of the chargeable period,were treated as separate chargeable periods.
- (3) But, so far as concerns expenditure incurred on or after 1 January 2015, the maximum allowance under section 51A of CAA 2001 for the second straddling period is the maximum allowance, calculated in accordance with sub-paragraph (2), for the period mentioned in paragraph (b) of that sub-paragraph.

*Operation of annual investment allowance where restrictions apply*

- 5 (1) Paragraphs 1 to 4 also apply for the purpose of determining the maximum allowance under section 51K of CAA 2001 (operation of annual investment allowance where restrictions apply) in a case where one or more chargeable

periods in which the relevant AIA qualifying expenditure is incurred are chargeable periods within paragraph 1(1) or 4(1).

This is subject to sub-paragraphs (2) and (3).

- (2) There is to be taken into account for those purposes only chargeable periods of one year or less (whether or not they are chargeable periods within paragraph 1(1) or 4(1)), and, if there is more than one such period, only that period which gives rise to the greatest maximum allowance.
- (3) For the purposes of sub-paragraph (2) any chargeable period which –
  - (a) is longer than a year, and
  - (b) ends in the tax year 2012-13, 2013-14, 2014-15, 2015-16 or 2016-17,is to be treated as being a chargeable period of one year ending at the same time as it actually ends.
- (4) Section 11(11) of FA 2011 is repealed.
- (5) That repeal has effect in relation to cases where one or more chargeable periods in which the relevant AIA qualifying expenditure is incurred are chargeable periods within paragraph 1(1).
- (6) Nothing in this paragraph affects the operation of sections 51M and 51N of that Act.

**EXPLANATORY NOTE**

**TEMPORARY INCREASE IN ANNUAL INVESTMENT ALLOWANCE**

**SUMMARY**

1. This clause introduces provisions to increase the maximum amount of the annual investment allowance (AIA) from £25,000 to £250,000 for a temporary period of two years. The increase is effective for expenditure incurred on or after 1 January 2013 and before 1 January 2015. Schedule 1 contains provisions about chargeable periods which straddle 1 January 2013 or 1 January 2015. The schedule may be seen as falling into three main parts: the first gives the rules for chargeable periods that straddle 1 January 2013; the second gives the rules for chargeable periods that straddle 1 January 2015; and the third explains how the rules relating to a shared AIA are modified.

**DETAILS OF THE CLAUSE**

2. Subsection (1) amends section 51A(5) of the Capital Allowances Act 2001 (CAA) so that the maximum AIA that can be claimed for a 12 month chargeable period is increased from £25,000 to £250,000, but only in relation to expenditure incurred during the two-year period beginning on 1 January 2013. For expenditure incurred on or after 1 January 2015, the maximum AIA returns to its previous limit of £25,000.
3. Subsection (2) introduces Schedule 1, which contains provisions about chargeable periods that straddle 1 January 2013 or 1 January 2015.

**DETAILS OF THE SCHEDULE**

4. Paragraph 1(1) explains that the paragraph applies to a chargeable period that begins before 1 January 2013 and ends on or after that date. Such a period is referred to as "the first straddling period".
5. Paragraph 1(2) provides that the maximum allowance for such a period will be the sum of each maximum allowance that would be found if the actual chargeable period were split into separate chargeable periods by reference to the 'relevant date' and the date of the temporary increase. The 'relevant date' is given by paragraph 1(4) and is the date of the last change in the maximum amount of the AIA (when the maximum amount was reduced from £100,000 to £25,000).

For the purposes of corporation tax (CT) this date was 1 April 2012 and, for the purposes of income tax, this date was 6 April 2012.

*The first period*

Because some business may have a chargeable period that began before “the relevant date” of 1 (or 6) April 2012, and so may be affected by the changes enacted by section 11 of Finance Act 2011, the first period is so much of the actual chargeable period as falls before 1 (or 6) April 2012. The legislation does not require that there has to be such a period, but where the chargeable period starts before 1 (or 6) April 2012 that period must be separately considered.

*The second period*

The second period is so much of the actual chargeable period as falls on or after 1 (or 6) April 2012, but before 1 January 2013.

*The third or last period*

The third period is so much of the actual chargeable period as falls on or after 1 January 2013.

6. So, where a business has a chargeable period of a year that straddles 1 January 2013, the maximum allowance for that period is the sum of:
  - (a) (if appropriate) the maximum AIA entitlement based on the £100,000 annual cap that applied before 1 (or 6) April 2012, for the portion of a year falling before that date; and
  - (b) the maximum AIA entitlement based on the £25,000 cap that applied for the portion of a year falling on or after 1 (or 6) April 2012, but before 1 January 2013; and
  - (c) the maximum AIA entitlement based on the new temporary £250,000 cap for the portion of a year falling on or after 1 January 2013.
7. Paragraph 1(3) provides that this calculation of the maximum allowance for “the first straddling period” is subject to paragraphs 2 and 3, which contain some additional rules about the maximum allowance for expenditure actually incurred in each of the three potential periods identified in paragraph 1(2). Paragraph 2 gives the additional rules for straddling periods beginning before 1 (or 6) April, and paragraph 3 gives the additional rules for straddling periods beginning on or after that date.
8. Paragraph 2(1) explains that the paragraph applies where the first straddling period begins before the relevant date of 1 (or 6) April.

For example, a company with a chargeable period from 1 March 2012 to 28 February 2013 would calculate its maximum AIA entitlement based on:

- (a) the proportion of a year from 1 March 2012 to 31 March 2012, that is  $1/12 \times \pounds 100,000 = \pounds 8,333$ ;
- (b) the proportion of a year from 1 April 2012 to 31 December 2012, that is,  $9/12 \times \pounds 25,000 = \pounds 18,750$ ; and
- (c) the proportion of a year from 1 January 2013 to 28 February 2013, that is,  $2/12 \times \pounds 250,000 = \pounds 41,667$ .

So, the company's maximum AIA for this first straddling period would be the total of (a) + (b) + (c) =  $\pounds 8,333 + \pounds 18,750 + \pounds 41,667 = \pounds 68,750$ .

9. Paragraph 2(2) effectively provides that in the part of the chargeable period falling before 1 (or 6) April 2012, the maximum allowance for expenditure actually incurred in this period, is the amount that would have been the maximum allowance for the first straddling period, if the temporary increase in the AIA to  $\pounds 250,000$  had not been made. So, for expenditure incurred in period (a) of the example in paragraph 8 above, the maximum allowance would be:

$1/12^{\text{th}} \times \pounds 100,000$	=	$\pounds 8,333$ , and
$11/12^{\text{ths}} \times \pounds 25,000$	=	<u><math>\pounds 22,917</math></u>
Total		<u><math>\pounds 31,250</math></u>

10. Paragraph 2(3) provides that for expenditure actually incurred in the part of the chargeable period falling on or after 1(or 6) April 2012, but before 1 January 2013, the maximum allowance is the difference between two amounts, called 'A' and 'B.' 'A' and 'B' are defined in the next subparagraph 2(4).

11. Paragraph 2(4)(a) defines 'A', and paragraph 2(4)(b) defines 'B'.

'A' means the amount that would have been the maximum allowance for the period beginning on the relevant date and ending at the end of the first straddling period, assuming that the temporary increase in the AIA to  $\pounds 250,000$  had not been made. In other words, applying this to our example at paragraph 8 above, the maximum allowance for expenditure incurred for the period beginning on 1 (or 6) April 2012 and ending on 28 February 2013 would have been  $(11/12 \times \pounds 25,000) = \pounds 22,917$ . So, based on our example, the value of 'A' would be  $\pounds 22,917$ .

‘B’ means the amount (if any) by which:

- (i) the AIA expenditure incurred in the period in paragraph 1(2)(a) of the Schedule (that is, in the period before the relevant date) in respect of which an AIA claim is made, exceeds
- (ii) the maximum allowance for that period, if it were to be treated as a separate chargeable period.

So, returning to our example in paragraph 8 above, the two elements of ‘B’ may be seen as:

- (i) an amount in the range between £31,250 and nil for the first element. For example:
  - if the business had actually incurred the maximum AIA expenditure it could in that part period, and was making a claim in respect of that expenditure, the maximum it could claim would be £31,250 (as already calculated at paragraph 9 above); or
  - if the business had decided to work out its AIA entitlement on a strict time-apportioned basis, and to spend no more than that amount prior to ‘the relevant date’, the first element of ‘B’ would be £8,333 (in our above example at paragraph 9 above); or
  - the business might, of course, decide to spend a lesser amount than either of the two possibilities just mentioned, or it might, indeed, have incurred no relevant expenditure at all, in which case the first element of ‘B’ would be nil.

From this first element of ‘B’ the following, second element falls to be deducted:

- (ii) The second element of ‘B’ is, based on our example, £8,333, that is, the maximum allowance the business could have claimed for that part period before the relevant date (i.e.  $1/12 \times £100,000 = £8,333$ ) as if that period were treated as a separate chargeable period.

12. The rule, then, for expenditure actually incurred on or after 1 (or 6) April 2012, but before 1 January 2013, is that the maximum allowance for this expenditure cannot exceed (‘A’ – ‘B’). Applying this formula to our example would mean that the maximum

allowance could not exceed 'A' or £22,917, less the extent to which the first element of 'B' exceeded the second element. So, for example:

- If the business had spent the maximum it could before 1 (or 6) April 2012, that is, £31,250, 'B' would equal  $(£31,250 - £8,333) = £22,917$ , and ('A' - 'B') would equal  $(£22,917 - £22,917) = \text{nil}$ . In other words, the business would already have used up its maximum allowance for this part period, and would not be entitled to any further AIA in relation to further expenditure incurred on or after the relevant date, but before 1 January 2013.
  - If, however, the business had spent and would be claiming on £8,333 before 1 (or 6) April 2012, 'B' would equal  $(£8,333 - £8,333) = \text{nil}$ , and ('A' - 'B') would equal  $(£22,917 - \text{nil}) = £22,917$ . In other words, the business's maximum allowance, in relation to expenditure incurred on or after 1(or 6) April and before 1 January 2013, would be £22,917, although if it claimed on those two amounts  $(£8,333 + £22,917 = £31,250)$  in respect of expenditure incurred before 1 January 2013, it would only have £37,500 of its maximum entitlement  $(£68,750 - £31,250 = £37,500)$  left to cover its expenditure incurred on or after 1 January 2013. (See the calculation of the overall maximum entitlement at paragraph 8).
  - Alternatively, if the business had incurred no qualifying expenditure in the part period before 1 (or 6) April 2012, 'B' would equal  $(£\text{nil} - £8,333) = \text{nil}$  (because no part of the expenditure actually incurred exceeded the second element of 'B') and ('A' - 'B') would equal  $(£22,917 - \text{nil}) = £22,917$ . This means, in effect, that the entitlement for the part period to the relevant date would have been lost, to the extent that it had not been utilised by that date, observing the transitional provision already legislated in section 11(7) of Finance Act 2011 (when the maximum AIA was reduced from £100,000 to £25,000 from 1 (or 6) April 2012).
13. Paragraph 2(5) provides that, in relation to expenditure actually incurred in the part of the chargeable period falling on or after 1 January 2013, the maximum allowance is the sum of each maximum allowance that would be found if the periods mentioned in paragraph 1(2)(b) and 1(2)(c) of the schedule were each treated as separate chargeable periods. In other words, returning to the example at paragraph 8 above, in relation to expenditure incurred on or after 1 January 2013, a maximum total of  $(b) + (c) = £18,750 + £41,667 =$

£60,417 could be covered. But if, for example, no qualifying expenditure had been incurred before 1 (or 6) April 2012 (period (a) at paragraph 8 above), that part of the business's potential maximum entitlement could not be effectively "regained" in relation to expenditure incurred on or after 1 January 2013. (Once again, this observes the rule legislated in section 11(7) of Finance Act 2011, in relation to the reduction in the AIA, effective from 1 (or 6) April 2012.)

14. Paragraph 3 gives the additional rule about the maximum allowance for expenditure incurred in straddling periods beginning on or after the relevant date of 1 (or 6) April 2012. For example, a company with such a straddling period might have a chargeable period that ran from 1 April 2012 to 31 March 2013. It would calculate its maximum AIA entitlement based on:

(a) the portion of a year from 1 April 2012 to 31 December 2012, that is,  $9/12 \times £25,000 = £18,750$ ; and

(b) the portion of a year from 1 January 2013 to 31 March 2013, that is,  $3/12 \times £250,000 = £62,600$ .

The company's maximum AIA for its first straddling period would therefore be the total of (a) + (b) = £81,250.

15. Paragraph 3(2) provides that so far as expenditure is incurred in the part of the chargeable period falling before 1 January 2013, the maximum allowance is to be calculated as if the increase in the maximum AIA to £250,000 had not been made. In other words, for expenditure incurred before 1 January 2013, only expenditure up to the maximum amount of the £25,000 cap can be covered. Or, to look at this from another perspective, the company in our example would need to incur qualifying expenditure of between £56,250 [i.e. £81,250 - £25,000 = £56,250, if it had already spent the maximum of £25,000 in 2012] and £81,250 on or after 1 January 2013, if it wanted to benefit from the maximum AIA available to it for this first straddling period.
16. Paragraph (4) provides the transitional rules for chargeable periods that straddle 1 January 2015, when the maximum amount of the AIA is to return to its previous maximum of £25,000. This rule is identical in its operation to section 11(6) and (7) of Finance Act 2011, when the AIA was reduced from £100,000 to £25,000.
17. Paragraph 4(1) explains that the paragraph applies to a chargeable period that begins before 1 January 2015 and ends on or after that date. Such a period is referred to as "the second straddling period".

18. Paragraph 4(2) provides that the maximum allowance for the second straddling period is the sum of each maximum allowance that would be found if:
- (a) the period beginning with the first day of the chargeable period and ending with the day before 1 January 2015, and,
  - (b) the period beginning with 1 January 2015 and ending with the last day of the chargeable period,

were treated as separate chargeable periods.

So a company with a financial year chargeable period, from 1 April 2014 to 31 March 2015, would calculate its maximum AIA entitlement for its 'second straddling period' based on:

- (a) the proportion of a year from 1 April 2014 to 31 December 2014, that is,  $9/12 \times £250,000 = £187,500$ , and
- (b) the portion of a year from 1 January 2015 to 31 March 2015, that is,  $3/12 \times £25,000 = £6,250$ .

The company's maximum AIA for this straddling period would, therefore, be the sum of (a) + (b) = £193,750.

19. Paragraph 4(3) provides that, for expenditure incurred in the part of the chargeable period falling on or after 1 January 2015, the maximum allowance is the maximum calculated in accordance with (b) above, that is, £6,250 in our example. This rule does not affect the business's maximum AIA entitlement for the chargeable period as a whole (which is £193,750), simply the amount of expenditure incurred on or after 1 January 2015 that may be covered.
20. For example, if the company in our example at paragraph 18 above, incurred no qualifying expenditure in the period 1 April 2014 to 31 December 2014 and then spent, say, £30,000 in the period 1 January 2015 to 31 March 2015, the maximum AIA available to that company for expenditure in that particular part period would be limited to £6,250.
21. Paragraph 5 provides the rules explaining the operation of the AIA where businesses have to share a single AIA (where restrictions apply).
22. Paragraph 5(1) provides that paragraphs 1 to 4 also apply for the purposes of determining the maximum allowance in relation to businesses that are required by CAA to share a single AIA, in a case where one or more of those businesses has a chargeable period that

straddles either the start or end date of the temporary increase. This provision is stated to be subject to sub-paragraphs (2) and (3).

23. Paragraphs 5(2) provides that, for the purposes of determining the maximum allowance in cases where businesses must share a single AIA, and one or more of the affected businesses has a straddling chargeable period, only chargeable periods of one year or less may be taken into account, and, if there is more than one such period, only that period which gives rise to the maximum allowance.
24. For example, four companies in a company group with different chargeable periods ending in the financial year 2012-2013 would be required to share a single AIA. In the following example, their individual maximum amounts are as shown in the third column of the table. However, their overall maximum, single AIA (to be shared amongst the group) would be the greatest maximum allowance, in this example, £93,750. So if, say, £93,750 were allocated to Company A, nothing further could be allocated to other companies in the group in this particular year. Alternatively, if, say, £43,750 were allocated to Company C, and the balance of the greatest maximum was to be allocated to Company D, no more than (£93,750 - £43,750)= £50,000 could be allocated to D in this particular year.

<b>Example: a related group of companies with chargeable periods ending in the transitional year: 1.04.12 to 31.03.13</b>		
<b>Company</b>	<b>Chargeable period (CP) ending on</b>	<b>Maximum time-apportioned AIA £</b>
A	30 April 2012	93,750
B	30 September 2012	62,500
C	31 December 2012	43,750
D	31 March 2013	81,250

25. Paragraph 5(3) contains a special rule which relates only to businesses carrying on a trade, profession or vocation within the charge to income tax, as these businesses can have a chargeable period of up to (but no more than) 18 months. Limiting a business's chargeable period to a year ending at the same time as it actually ends, stops an increased AIA being shared with related businesses. Paragraph 5(6) preserves the right of the business with the long chargeable period to see if it is entitled to look back to an earlier chargeable period to see if there is potentially an unused AIA entitlement in that earlier chargeable period.

26. Paragraphs 5(4) & (5) repeal section 11(11) of Finance Act 2011, but only in relation to cases where one or more of the chargeable periods, in which relevant AIA qualifying expenditure is incurred, is a chargeable period which straddles 1 January 2013.
27. Paragraph 5(6) provides that where an AIA has to be shared the special rules in relation to unincorporated businesses with chargeable periods longer than 12 months are not affected by the transitional provisions in paragraph 5.

### **BACKGROUND**

28. Since 1 April 2008 (CT) and 6 April 2008 (income tax) most businesses, regardless of size, have been able to claim the AIA on their expenditure on plant or machinery, up to a specified annual amount each year (subject to certain conditions mentioned below). With effect from 1 April 2012 (CT) or 6 April 2012 (income tax) the maximum amount of the AIA was reduced from £100,000 to £25,000 for qualifying expenditure incurred on or after those dates.
29. At the Autumn Statement, on 5 December 2012, the Chancellor announced that legislation would be introduced in Finance Bill 2013 to increase the maximum amount of the AIA from £25,000 to £250,000 from 1 January 2013, for a temporary period of two years.
30. The temporary increase is designed to stimulate growth in the economy by providing an additional, time-limited incentive for businesses (particularly small and medium-sized businesses) to increase, or bring forward, their capital expenditure on plant or machinery.
31. Businesses are able to claim the AIA in respect of their expenditure on both general and “special rate” plant and machinery. The AIA is effectively a 100 per cent allowance that applies to most qualifying expenditure (with expenditure on cars being the most important exception) up to an annual limit or cap. Where businesses spend more than the annual limit, any additional qualifying expenditure is dealt with in the normal capital allowances regime, entering either the main rate or the special rate pool, where it will attract writing-down allowances (WDAs) at the 18 per cent or 8 per cent rates respectively.
32. Because the AIA is a generous relief there are certain restrictions

It is available to:

- any individual carrying on a qualifying activity (this includes trades, professions, vocations, ordinary property businesses and individuals having an employment or office);
  - any partnership consisting only of individuals; and,
  - any company (subject to certain restriction).
33. In the case of companies in a group there is one AIA available to all the companies in the group.
34. In the case of singleton companies, each receives its own AIA unless, for example, it and another company are under common control. In cases where companies are under common control (for example, two companies owned by the same individual) each company will still be entitled to a separate AIA, unless they are engaged in “similar activities” or share the same premises in a financial year.
35. The rules provide that a company is related to another company in a financial year and, separately, that an unincorporated qualifying activity is related to another qualifying activity in a tax year, if either or both of:
- the shared premises condition; and/or,
  - the similar activities condition,
- are met in relation to the companies or the qualifying activities with chargeable periods ending in that financial year, or that tax year, as the case may be.
36. The rules provide businesses with almost complete freedom to allocate the AIA between different types of expenditure. For example, they may allocate it first against any expenditure on “integral features”, qualifying for the lower 8 per cent “special rate” of WDA.
37. If you have any questions about this change or comments on the legislation, please contact Joy Guthrie (email: [joy.guthrie@hmrc.gsi.gov.uk](mailto:joy.guthrie@hmrc.gsi.gov.uk)) or Malcolm Smith (email: [malcolm.smith3@hmrc.gsi.gov.uk](mailto:malcolm.smith3@hmrc.gsi.gov.uk)) or telephone 020 7147 2610.