HM Revenue
& Customs

Annual investment allowance: increase to £500,000 for extended temporary period

Who is likely to be affected?

Businesses investing more than £250,000 in plant or machinery from April 2014.

General description of the measure

The measure increases the maximum amount of the annual investment allowance (AIA) to £500,000 from 1 April 2014 for corporation tax (CT) and 6 April 2014 for income tax (IT) to 31 December 2015, after which it will return to £25,000.

Policy objective

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

Background to the measure

The maximum amount of the AIA was temporarily increased to £250,000 from £25,000 for the period from 1 January 2013 to 31 December 2014. This measure extends the period of the temporary increase to 31 December 2015 and further increases the amount of the AIA to £500,000 from April 2014.

Detailed proposal

Operative date

The increase in the AIA limit to £500,000 will have effect in relation to qualifying expenditure incurred from 1 April 2014 for CT and 6 April 2014 for IT to 31 December 2015.

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. This was temporarily increased to £250,000 for the period 1 January 2013 to 31 December 2014 in Finance Act 2013.

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

Where businesses spend more than the annual limit, any additional qualifying expenditure will attract relief under 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 2014, to further increase the AIA limit to £500,000 from 1 (or 6) April 2014 to 31 December 2015.

Where a business has a chargeable period that spans either of: (i) the operative date of the increase to £500,000 on 1 (or 6) April 2014, or (ii) the operative date of the reversion to £25,000 on 1 January 2016, transitional rules will apply:

(i) Chargeable periods spanning date of increase to £500,000

Where a business has a chargeable period of 12 months that spans the operative date of the increase on 1 (or 6) April 2014, the maximum allowance for that business's transitional chargeable period comprises two parts:

(a) its AIA entitlement, based on the current £250,000 annual cap for the portion of the period falling before 1 (or 6) April 2014; and

(b) its AIA entitlement, based on the new £500,000 cap for the portion of the period falling on or after 1 (or 6) April 2014.

Example

A company with a 12 month chargeable period from 1 January 2014 to 31 December 2014 would calculate its maximum AIA entitlement based on:

(a) the proportion of the period from 1 January 2014 to 31 March 2014, that is, 3/12 x £250,000 = £62,500; and

(b) the proportion of the period from 1 April 2014 to 31 December 2014, that is, 9/12 x £500,000 = £375,000.

The company's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) = £62,500 + £375,000 = £437,500, although in relation to (a) (the part period falling before 1 (or 6) April 2014, no more than a maximum of £250,000 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 £500,000).

(ii) Chargeable periods spanning date of reversion to £25,000

Where a business has a chargeable period that spans the date of end of the temporary increase on 31 December 2015, the maximum allowance for that business's transitional chargeable period comprises two parts:

(a) the AIA entitlement, based on the temporary £500,000 annual cap for the portion of the period falling before 1 January 2016; and

(b) the AIA entitlement, based on the £25,000 cap for the portion of the period falling on or after 1 January 2016.

Example

A company with a 12 month chargeable period from 1 April 2015 to 31 March 2016 would calculate its maximum AIA entitlement based on:

(a) the proportion of the period from 1 April 2015 to 31 December 2015, that is, 9/12 x £500,000 = £375,000; and

(b) the proportion of the period from 1 January 2016 to 31 March 2016, that is 3/12 x £25,000 = £6,250.

The company’s maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) = £375,000 + £6,250 = £381,250, although in relation to (b) (the part period falling on or after 1 January 2016) no more than £6,250 of the company’s actual expenditure in that part period would be covered by its transitional AIA entitlement.

There are more detailed transitional rules for businesses subject to IT and with a chargeable period spanning both (1) 1 January 2013, the increase of the AIA limit to £250,000 and (ii) 6 April 2013 the date of the increase of the AIA limit to £500,000.

There are also more detailed transitional rules about entitlement to AIA for example, in relation to group companies, or when businesses under common control are regarded as “related”. These transitional rules are based on similar time-apportionment principles as applied to the rules in section 51K of CAA (operation of the annual investment allowance where restrictions apply).

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-85</td><td>-665</td><td>-1270</td><td>+175</td><td>+270</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">By accelerating the relief on qualifying expenditure up to £500,000 limit, 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.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Capital allowances can only be claimed in the course of a business. .</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The measure does not impact on the equality of groups with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">Businesses, investing in qualifying plant and machinery, will benefit from the extension of this 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.

The temporary increase in the allowance to £500,000 is not expected to result in any material compliance costs for businesses.

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 £500,000 AIA.

This measure is not expected to have a material impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">It is not anticipated that there will be any material additional information technology and compliance costs for HMRC as a result of the extension of the temporary increase in the amount of AIA.</td></tr>
</table>

Other impacts	Small and micro business assessment: the temporary increase in the AIA is not expected to have any material impact on small firms (those with up to 49 employees). Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and through regular engagement with businesses and their representative bodies.

Further advice

If you have any questions about this change, please contact Paul Philip on 03000 589279 (email: paul.philip@hmrc.gsi.gov.uk).