

# Comment on...

## Annual Investment Allowance

### Background

The Annual Investment Allowance (AIA) was introduced as a tax incentive to promote investment. It enables businesses to claim a 100% tax deduction for eligible capital expenditure, where the expenditure would otherwise only be entitled to relief at 18% or 8% per annum. The AIA annual expenditure limit was previously set at £500,000, but fell to a permanent annual limit of £200,000 from 1 January 2016.

The AIA can be claimed by both incorporated and unincorporated businesses. Partnerships where not all the partners are individuals are unable to claim AIA. It can generally be claimed against the cost of most types of plant and machinery (not cars), including fixtures and fittings.

### Accounting Periods Straddling 1 January 2016

Where an accounting period straddles 1 January 2016 care is required to ensure the AIA benefit is maximised.

For example, a business with a 31 January 2016 year end will have a total allowance of £475,000 if it times their purchases wisely but could have an allowance of only £16,667 if it falls foul of the transitional rules. This is because the limit for the accounting period after 1 January 2016 is calculated by multiplying the new allowance of £200,000 by the fraction of the accounting period that falls into 2016. Therefore, a business with a year-end of 31 January 2016 will have an allowance of £16,667 ( $£200,000 \div 12$ ) to apply against expenditure in January 2016. If its expenditure had all been in the first 11 months of its accounting period, it could have claimed £475,000 ( $(£500,000 \times (11 \div 12)) + (£200,000 \div 12)$ ); and if its expenditure had all been in February 2016 the full allowance of £200,000 would have been available.

Any business with a year-end other than 31 December will be affected as illustrated in the table below:

Year End	No. of months under old rules	No. of months under new rules	Pre 01/01/16 AIA limit (£)	Max AIA on expenditure post 01/01/16 (£)	Total AIA available for the year (£)
31/12/2015	12	0	500,000	-	500,000
31/01/2016	11	1	458,333	16,667	475,000
29/02/2016	10	2	416,667	33,333	450,000
31/03/2016	9	3	375,000	50,000	425,000
30/04/2016	8	4	333,333	66,667	400,000
31/05/2016	7	5	291,667	83,333	375,000
30/06/2016	6	6	250,000	100,000	350,000
31/07/2016	5	7	208,333	116,667	325,000
31/08/2016	4	8	166,667	133,333	300,000
30/09/2016	3	9	125,000	150,000	275,000
31/10/2016	2	10	83,333	166,667	250,000
30/11/2016	1	11	41,667	183,333	225,000

In order to optimise the timing of the tax relief, we recommend you contact your usual C+T contact or John Rodger at [john.rodger@chiene.co.uk](mailto:john.rodger@chiene.co.uk)