



# ANNUAL INVESTMENT ALLOWANCE

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New permanent limit announced

## What is the situation?

The Annual Investment Allowance (AIA) is a capital allowance which applies for purchased assets which are used and kept within a business. Some or all of the asset value can then be deducted from profits before tax is applied.

The March 2014 budget statement temporarily increased the AIA limit from its then temporary limit of £250,000 to £500,000 for Limited Companies from 1 April 2014 and for Sole Traders and Partnerships from 6 April 2014. This increase was to help stimulate the economy through business investment and increased the incentive for businesses to invest in plant and machinery for a limited time and is in place until 31 December 2015 when it was set to return to its previous permanent limit of £25,000.

This position was changed in the budget of 8 July 2015 to provide a new, permanent limit of £200,000 to commence with effect from 1 January 2016.

## Timing considerations

AIA can only be claimed in the period an asset is purchased. Under the rules, the date is assigned as:

- The day a contract is signed, if payment is due within four months.
- The day payment is due, if it is due more than four months after the signing of the contract.

Whilst the permanent limit increases to £200,000 from 1 January 2016, the current temporary limit of £500,000 offers an opportunity to secure additional benefits if you are able to make the purchase within the qualifying period.

## How Lloyds Bank can help

Businesses can use our Hire Purchase (HP) product to purchase new plant and machinery assets outright, then spread payments over an agreed time frame.

Combined with the benefits of AIA, HP offers our business customers the opportunity to invest with budgetary certainty in the latest equipment to support their plans. The extension has already helped our customers accelerate the timing of tax relief on qualifying capital expenditure.

Contact your relationship manager for more information.

## What is the scope of AIA?

AIA allowances can be claimed on plant and machinery assets that are kept and used within a business.

Qualifying assets include:

- Business machines, such as printing presses, lathes and machine tools
- Computerised/computer aided machinery, including robotic machines



- Computer hardware and qualifying software
- Tractors, combine harvesters and other agricultural machinery
- Office furniture and equipment
- Vans, lorries and equipment.

AIA capital allowance cannot be claimed from:

- Leases
- Buildings, including doors, gates, shutters, mains water and gas systems
- Land and structures, such as bridges, roads and docks
- Items used only for business entertainment, such as a yacht
- Cars, for which writing down allowances could be claimed instead.

Additionally, further exclusions apply to:

- Assets used outside of the business – capital allowance would need to be reduced by the amount the asset is used outside the business
- Mixed partnerships – if one of the partners is registered as a company then the business is unable to claim AIA.

**If you are in any doubt as to the appropriateness of making use of the Annual Investment Allowance, you should consult with your professional adviser.**

## EXAMPLE

The example below provides an indicative view of the potential tax savings a customer could receive by purchasing an asset before 31 December 2015 compared to making the capital expenditure on 1 January 2016 or after.

### Eligible capital expenditure: £500,000

	Pre 31 December 2015	On or after 1 January 2016
Annual Investment Allowance (AIA)	£500,000	£200,000
Remaining AIA	£0.00	£0.00
Remaining balance for Writing Down Allowances (WDA)	£0.00	£300,000
WDA Rate	18%	18%
WDA	£0.00	£54,000
Total Allowances	£500,000	£254,000
Corporation Tax rate	20%	20%
<b>Indicative tax saving</b>	<b>£100,000</b>	<b>£50,800</b>

Assumptions:

Maximum AIA is available. Accounting period is January to December. For other accounting periods the AIA would require pro-rating. Writing down allowance rate of 18% on a reducing balance basis. Main Corporation Tax rate is payable and sufficient profit generated to realise benefit of AIA or WDA.

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