

Capital allowances

3

Late change to Annual Investment Allowance rules

When Finance Act 2020 was published, the Annual Investment Allowance (AIA) was set to fall from £1,000,000 to £200,000 from 1 January 2021. However, in December 2020 the government announced its intention to retain the £1,000,000 amount. By this time your Business Tax material had been published, showing the planned fall in the relief.

In response to this late notice change, the AAT has decided that they will mark as correct any answers which use either a £200,000 AIA (as in your original material), or a £1,000,000 AIA (which is now technically correct).

We would suggest that in fact you use a £1,000,000 AIA because this is simpler.

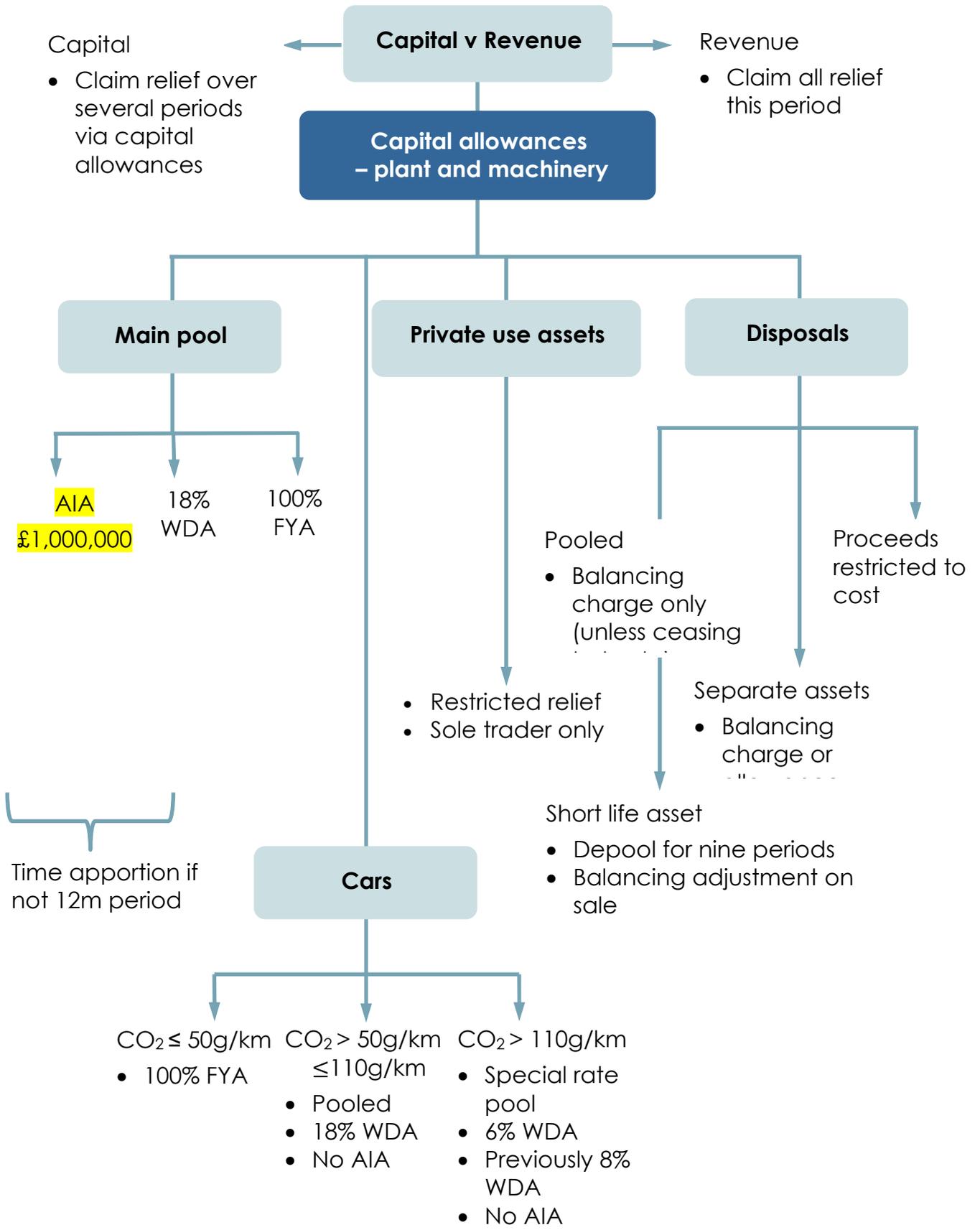
To help you with this, we have reproduced the relevant sections of **Chapter 3 Capital allowances**, using the £1,000,000 AIA. Any changes to numbers are highlighted in yellow, and deletions required are crossed out. Solutions to the relevant activities are at the end of the chapter.

In addition, in your **Passcards** you will need to make a change to page 17 in the Annual investment allowance section. The three bullet points should read:

- £1,000,000 (£200,000 prior to 1 January 2019)
- Scale up/ down for short/long periods of account
- Use hybrid AIA for periods of account that straddle 1 January 2019 and ~~1 January 2021~~.

Finally, the changes you will see in the **AAT reference materials and tax tables** are at the back of this document.

Chapter overview



4 Allowances on plant and machinery



4.3 Annual investment allowance

Capital allowances on plant and machinery
Taxation tables for business tax – 2020/21

A business can claim an **annual investment allowance (AIA)**, giving 100% tax relief on its expenditure on plant and machinery.

From 1 January 2019 a business can claim AIA on the first £1,000,000 of expenditure on plant and machinery in a 12-month **period of account**. (The AIA was £200,000 prior to 1 January 2019.) Prior to 1 January 2021 the AIA had been temporarily increased to £1,000,000. The temporary, increased AIA was available from 1 January 2019 to 31 December 2020.

The AIA is not available for expenditure on cars.

The amount of the AIA is scaled up/down for long/short periods of account.

Note. Companies cannot have a corporation tax period that is longer than 12 months.

Activity 1: Annual investment allowance



Delson starts a business on 1 January 2021. In the nine-month period to 30 September 2021, he incurs the following expenditure:

		£
15 January 2021	Manufacturing equipment	450,000
16 January 2021	Computer equipment	160,000
7 May 2021	Office furniture	130,000
13 May 2021	Delivery vans	20,000
20 June 2021	Car	19,000

Required

Delson can claim an annual investment allowance of

£	<input type="text"/>
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Workings (on-screen free text area provided in the CBT as part of larger question)

4.3.1 Periods of account which straddle the change in AIA



Capital allowances on plant and machinery
Taxation tables for business tax – 2020/21

Where a business has a period of account which straddles 1 January 2021, ie it starts before 1 January 2021 and ends after that date, the maximum AIA for that period of account is calculated by time apportioning the relevant AIA limits based on the number of months in the period of account which fall before 1 January 2021 and the number of months which fall after.

Where a business has a period of account which straddles 1 January 2019, ie it starts before 1 January 2019 and ends after that date, the maximum AIA for that period of account is calculated by time apportioning the relevant AIA limits based on the number of months in the period of account which fall before 1 January 2019 and the number of months which fall after.



Assessment focus point

The rules for calculating the maximum AIA available for periods straddling 1 January 2019 are slightly more complex than we have shown below. However, the AAT have advised us that the full complexity of this will not be needed and tasks in the Business Tax assessment will be designed to accommodate this.



Illustration 1

Matthew began trading on 1 April 2020 and prepared accounts for the year to 31 March 2021.

In the year ended 31 March 2021, Matthew buys equipment for his business at a cost of £600,000, all of which qualifies for the AIA. All expenditure was incurred prior to the 1 January 2021.

First we must calculate the maximum AIA that Matthew can claim. His period of account is 12 months long but nine of those months are before 1 January 2021 and three are after 1 January 2021. This means that the maximum AIA is as follows:

		£
1 April 2020 to 31 December 2020	$9/12 \times £1,000,000$	750,000
1 January 2021 to 31 March 2021	$3/12 \times £200,000$	50,000
Maximum AIA for the year ended 31 March 2021		800,000

So the maximum AIA for the year ended 31 March is £800,000, which will be sufficient to cover all of Matthew's £600,000 expenditure.



Illustration 2

Teddy began trading on 1 December 2018 and prepared accounts for the 16 months to 31 March 2020.

In the period ended 31 March 2020, Teddy buys equipment for his business at a cost of £850,000, all of which qualifies for the AIA.

First, we must calculate the maximum AIA that Teddy can claim. His period of account is 16 months long but one of these months is before 1 January 2019 and 15 are after 1 January 2019. This means that the maximum AIA is as follows:

		£
1 December 2018 to 31 December 2018	$1/12 \times £200,000$	16,667
1 January 2019 to 31 March 2020	$15/12 \times £1,000,000$	1,250,000
Maximum AIA for the period ended 31 March 2020		1,266,667

So, the maximum AIA for the period ended 31 March 2020 is £1,266,667, which will be sufficient to cover all of Teddy's £850,000 expenditure.



Activity 8: Calculation of capital allowances

Oscar, a sole trader, makes up accounts for the 18 months to 30 June 2021. The brought forward value on his main pool on 1 January 2020 was £81,000. He bought and sold the following assets:

		£
10 July 2020	Plant	1,410,000
10 August 2020	Car for salesman (CO ₂ emissions 49g/km)	11,000
12 September 2020	Plant	550,000
1 June 2021	Disposed of plant (cost £30,000)	32,000

Chapter summary

- Assets that perform a function in the trade are generally plant. Assets that are part of the setting are not plant.
- Most expenditure on plant and machinery goes into the main pool.
- An annual investment allowance (AIA) of **£1,000,000** is available from 1 January 2019 on expenditure other than on cars. It was £200,000 before this date. ~~The AIA was temporarily increased to £1 million between 1 January 2019 and 31 December 2020.~~ The relevant limit is prorated for periods of more or less than 12 months.
- The AIA is time-apportioned on a monthly basis if the period of account straddles ~~1 January 2019 or 1 January 2021.~~
- FYAs at 100% are available on low emission cars and energy and water saving plant.
- There is a writing-down allowance (WDA) of 18% on the balance of the main pool in a 12-month period and 6% on the special rate pool.
- WDAs are time-apportioned in short or long periods.
- If an accounting period straddles 6 April 2019, a hybrid rate is used to calculate the WDA on the SR pool as WDA were given at 8% prior to this date.
- FYAs are never time-apportioned for short or long periods.
- If the WDV on the main or special rate pool is £1,000 or less, then an election can be made to write off the pool balance, known as a 'small pools allowance'.
- Balancing allowances or balancing charges will be given when the trade ceases, and when an asset is disposed of, which is not included in the main pool or special rate pool.
- Private use of assets by sole traders and partners restricts capital allowances.
- An election can be made to depool short life assets. If a depooled asset is not sold within eight years of the end of the period of acquisition, the value of the short life asset at the end of that period is transferred to the main pool.
- Cars are dealt with according to their CO₂ emissions:
 - Up to 50g/km – FYA at 100%
 - 51g/km to 110g/km – main pool with WDA of 18%
 - Above 110g/km – special rate pool with WDA 6%

Test your learning

- 2 Nitin, who prepares accounts to 30 September each year, had a balance on his main pool of £22,500 on 1 October 2020. In the year to 30 September 2021, he sold one asset and bought one asset as follows:

Addition (eligible for AIA) 1.12.20	£171,250
Disposal proceeds on sale on 1.8.21 (less than cost)	£7,800

The amount of capital allowances available for the year ended 30 September 2021 is:

£	<input type="text"/>
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CHAPTER 3 Capital allowances - Solutions to Activities

Activity 1: Annual investment allowance

Delson can claim an annual investment allowance of

£	750,000
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Workings (on-screen free text area provided in the CBT as part of larger question)

Nine-month period.

Max entitlement is therefore $\frac{9}{12} \times \text{£}1,000,000 = \text{£}750,000$

Assets eligible are:

		£
15 January 2021	Manufacturing equipment	450,000
16 January 2021	Computer equipment	160,000
7 May 2021	Office furniture	130,000
13 May 2021	Delivery vans	20,000
		760,000

As the eligible assets are greater than the limit, Delson may only claim **£750,000**.

Note. The balance of expenditure will be eligible for other allowances.

Activity 2: Writing-down allowances in the main pool

Jamie can claim an annual investment allowance of

£	859,000
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Jamie can claim writing-down allowances of

£	4,680
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Workings (on-screen free text area provided in the CBT as part of larger question)

	AIA £	Main pool £	Total £
TWDV b/f		10,000	
Additions			
Car		18,000	
Van	9,000		
Manufacturing plant (Total = £ 850,000)	850,000	59,000	

	AIA £	Main pool £	Total £
AIA (see note)	(859,000)		859,000
Disposals		(2,000)	
		26,000	
WDA @ 18%		(4,680)	4,680
			863,680
TWDV c/f		21,320	

Note. The AIA limit is £1,000,000 for a 12-month period post 1 April 2019.

Activity 8: Calculation of capital allowances

The capital allowances claim that Oscar can make for the period ended 30 June 2021 is calculated as follows:

	AIA/FYA £	Main pool £	Allowances £
18 m/e 30 June 2021			
B/f		81,000	
Disposal 1.6.21 AIA acquisition		(30,000)	
10.7.20 Plant	1,410,000		
12.9.20 Plant	550,000		
AIA (see note)	(1,500,000)		1,500,000
	460,000		
Transfer balance to pool	(460,000)	460,000	
FYA acquisition			
10.8.20 Car	11,000		
FYA @ 100%	(11,000)		11,000
		511,000	
WDA @ 18% × 18/12		(137,970)	137,970
C/f		373,030	
Allowances			1,648,970

Notes.

- The AIA limit and WDA are scaled up for the 18-month period, whereas the FYA is never scaled up or down. The limit is calculated by adding

together the pro-rated AIA for the part of the period prior to 1 January 2021 to the pro-rated AIA to the part of the period starting on 1 January 2021. This is $(£1,000,000 \times 12/12) + (£200,000 \times 6/12)$. The total AIA is therefore $£1,500,000$ $(£1,000,000 \times 18/12)$.

- 2 This working would not be the same had it related to a company, as the 18-month period would be split into two accounting periods (a 12-month period and a 6-month period). We look at accounting periods for companies later in the Course Book.

Solutions to Test your learning

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£	173,896
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Workings

Year ended 30 September 2021

	AIA £	Main pool £	Allowances £
B/f		22,500	
Addition qualifying for AIA			
Addition 1.12.20	171,250		
AIA (See Note)	(171,250)		171,250
<i>Disposal 1.8.21</i>			
Proceeds		(7,800)	
		14,700	
WDA @ 18%		(2,646)	2,646
C/f		12,054	
Allowances			173,896

Note. Maximum AIA = £1,000,000. This is sufficient to cover all of the expenditure on qualifying assets.

Changes to AAT reference materials and tax tables

1 Taxation tables for business tax – 2020/21

1.1 Capital allowances

Annual investment allowance

Prior to 1 January 2019

£200,000

Between From 1 January 2019 and 31 December 2020

£1,000,000

— From 1 January 2021

£200,000

Capital allowances on plant and machinery

7.1 Layout of capital allowances on plant and machinery computation

Under the table:

- AIA – 100% allowance for expenditure (other than cars) in 12-month period (pro rata). Expenditure in excess of AIA qualifies for writing down allowance (WDA). ~~If the accounting period straddles 1 January 2019 or 1 January 2021, the AIA must be pro-rated.~~