

AAT Business Tax FA20 Question Bank

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 questions from your Question Bank using the £1,000,000 AIA. Any changes to numbers are highlighted in yellow. You will find the solutions immediately under each question.

Solution 3.2

	AIA £	Main pool £	Mercedes car (80%) £	Allowance £
p/e 30 April 2020				
b/f		38,500		
Additions				
14.1.19 Factory machinery	1,500,000			
30.3.19 Car			18,000	
31.3.19 Car		8,000		
2.6.19 Equipment	31,000			
Disposals				
31.12.19 Machinery		(3,000)		
AIA (note)	(1,366,667)			1,366,667
Transfer to main pool	(164,333)	164,333		
		207,833		
WDA @ 18% × 18/12		(56,115)		56,115
WDA @ 18% × 18/12			(4,860) × 80%	3,888
c/f		151,718	13,140	
Allowances				1,426,670

Note. Maximum AIA = $(£200,000 \times 2/12) + (£1,000,000 \times 16/12) = £1,366,667$

Task 3.3

Wolfgang commences to trade on 1 April 2020. During his first year, he incurs the following expenditure:

		£
6 May 2020	Machinery	850,000
6 July 2020	Car with CO ₂ emissions of 40g/km	8,000
31 August 2020	Car with CO ₂ emissions of 105g/km	10,500

Using the proforma layout provided, compute the capital allowances available to Wolfgang for the year ended 31 March 2021.

Solution 3.3

	AIA £	FYA @ 100% £	Main pool £	Allowances £
Y/e 31 March 2021				
Additions				
6.5.20 Machinery	850,000			
6.7.20 Low emission car		8,000		
31.8.20 Car			10,500	
AIA (see note)	(850,000)			850,000
FYA @ 100%		(8,000)		8,000
		-		

WDA @ 18%			(1,890)	1,890
c/f			8,610	
Total allowances				859,890

Note. The maximum AIA for the year ended 31 March 2021 is £1,000,000 so relief is available for all eligible additions.

Task 3.6

Davies Ltd prepares accounts annually to 31 March.

During the accounting period ended 31 March 2021, Davies Ltd purchased and disposed of the following items of plant and machinery.

		£
Purchases		
10 May 2020	A machine	1,060,000
16 August 2020	A car	
	(CO ₂ emissions 119g/km)	22,000
12 December 2020	Computer with a useful life of six years. A short life asset election will be made.	12,000
Disposals		
10 June 2020	A laser cutting machine, originally purchased in June 2019 for £17,500 was sold. The tax written down value of this asset on 1 April 2020 was £14,000. An election has been made to treat this machine as a short life asset.	12,000

The tax written down value of the main pool on 1 April 2020 was £180,000.

Davies Ltd can claim capital allowances for the year ended 31 March 2021 of

£	
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Workings

Solution 3.6

Davies Ltd can claim capital allowances of **£1,048,680**

Davies Ltd – Capital allowances for year ended 31 March 2021

	AIA	Main pool	Special rate pool	SLA (1)	SLA (2)	Allowances
TWDV b/f		180,000		14,000		
Additions qualifying for AIA						
Machine	1,060,000					
AIA	(1,000,000)					1,000,000
	60,000					
To pool	(60,000)	60,000				

Computer					12,000	
Additions not qualifying for AIA						
Car			22,000			
Disposal				<u>(12,000)</u>		
				2,000		
Balancing allowance				(2,000)		2,000
		240,000	22,000		12,000	
WDA x 18%		<u>(43,200)</u>			<u>(2,160)</u>	45,360
WDA x 6%			<u>(1,320)</u>			<u>1,320</u>
TWDV c/f		196,800	20,680		9,840	1,048,680

Task 3.7

XYZ plc had the following transactions in plant and machinery for the nine-month period ended 31 March 2021:

		£
Purchases		
10 July 2020	A machine	775,000
16 August 2020	A BMW with CO ₂ emissions of 108g/km used privately by an employee 20% of his time	19,000
1 January 2021	An Audi with CO ₂ emissions of 120g/km	25,000
Disposals		
10 January 2021	A machine, which had originally cost £8,500, was sold for £6,600.	6,600

The tax written down value of the main pool on 1 July 2020 was £230,000.

XYZ plc can claim capital allowances for the period ended 31 March 2021 of

£	
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Solution 3.7

XYZ plc can claim capital allowances of £787,224

	AIA	Main Pool	Special rate pool	Allowances
TWDV b/f		230,000		
Additions qualifying for AIA				
Machinery	775,000			
AIA (See note)	(750,000)			750,000
	25,000			
To main pool	(25,000)	25,000		
Additions not qualifying for the AIA				
BMW (Car)		19,000		
Audi (Car)			25,000	
Disposal				
Machine		(6,600)		
		267,400		

WDA x 18% x 9/12		(36,099)		36,099
WDA x 6% x 9/12			(1,125)	1,125
		231,301	23,875	787,224

Note. The limit for the 9-month period ended 31 March 2021 is (£1,000,000 × 9/12) = £750,000.

BPP Practice Assessment 2

Task 2 (11 marks)

Mustafa has been trading for many years, making up accounts to 31 March.

His capital allowances balances brought forward at 1 April 2020 were as follows:

Main pool	£13,291
Car for Mustafa, 30% private usage	£8,745

The following capital transactions were made in the period:

		£
Additions		
10.04.20	Plant and machinery	58,100
15.04.20	Car for Mustafa, CO ₂ emissions 50 g/km, 40% private usage	24,500
22.06.20	Plant and machinery	983,750
Disposal		
15.04.20	Mustafa's previous car	8,000
3.05.20	Plant and machinery (original cost £4,100)	5,970

Using the proforma layout provided, calculate the capital allowances for the year ended 31 March 2021. (11 marks)

	AIA £	Main pool £	Private use car (70%) £	Private use car (60%) £	Allowances £

Solution to Task 2

Year ended 31 March 2021

	AIA £	Main pool £	Private use car (70%) £	Private use car (60%) £	Allowances £
b/f		13,291	8,745		
AIA additions					
April 2020	58,100				
June 2020	983,750				
Car April 2020				24,500	
AIA	(1,000,000)				1,000,000
Transfer to pool	(41,850)	41,850			
Disposals		(4,100)	(8,000)		
		51,041			
BA			745 × 70%		522
WDA @ 18%		(9,187)			9,187

Solution to Task 3

	AIA £	FYA £	Main pool £	Car (70%) £	Allowances£
AIA additions					
Plant and machinery	1,350,000				
Motor van	35,500				
	1,385,500				
AIA (see note)	(1,250,000)				1,250,000
	135,500				
Transfer balance to main pool	(135,500)		135,500		
Non-AIA additions					
Car				9,600	
Car		12,500			
FYA @ 100%		(12,500)			12,500
WDA @ 18% × 15/12			(30,488)		30,488
WDA @ 6% × 15/12				(720) × 70%	504
c/f			105,012	8,880	
Allowances					1,293,492

Note. The WDA is time apportioned for a long period of account, but not the FYA.

The maximum AIA for the period is $(15/12 \times \text{£}1,000,000) = \text{£}1,250,000$

BPP Practice Assessment 4

Task 3

Codie is in business as a sole trader making up accounts to 31 January each year. You have been asked to complete her capital allowances computation for the year to 31 January 2021. The following information is relevant:

- (1) The capital allowance computation showed the following written-down value at 1 February 2020:

£

Solution to Task 3

Year ended 31 January 2021

	AIA £	Main pool £	Car (20% business) £	Allowances £
B/f		58,060		
AIA additions				
June 2020	900,000			
December 2020	204,250			
	1,104,250			
AIA	(1,000,000)			1,000,000
Transfer to main pool	(104,250)	104,250		
Disposals		(23,900)		
Non-AIA addition				
Car			19,320	
		138,410		
WDA @ 18%		(24,914)		24,914
WDA @ 18%			(3,478) × 20%	696
		113,496	15,842	1,025,610