

Change ahead for capital allowances: AIA and WDA

In the Autumn Budget, Chancellor Philip Hammond announced a number of changes to capital allowances. These include:

- an increase in the Annual Investment Allowance (AIA) available and
- a reduction in the writing down allowance (WDA) on the special rate pool.

Here we consider the rules which apply to accounting periods which straddle these changes.

AIA up from 1 January 2019

You will no doubt be aware that the maximum AIA has been set at £200,000 per annum for expenditure incurred since 1 January 2016. The AIA provides a 100% tax write off against profits for expenditure incurred on qualifying plant and machinery (except cars).

For expenditure incurred on or after 1 January 2019, the maximum AIA is increased to £1,000,000. This increase is temporary and is for a two-year period only. The AIA will then revert back to £200,000 for expenditure incurred on or after 1 January 2021.

For those businesses with a December year end that have already used their current accounting period's AIA of £200,000, delaying expenditure until after 31 December 2018 is a straightforward option. However, watch out for the rules that apply to businesses with accounting periods which straddle 31 December.

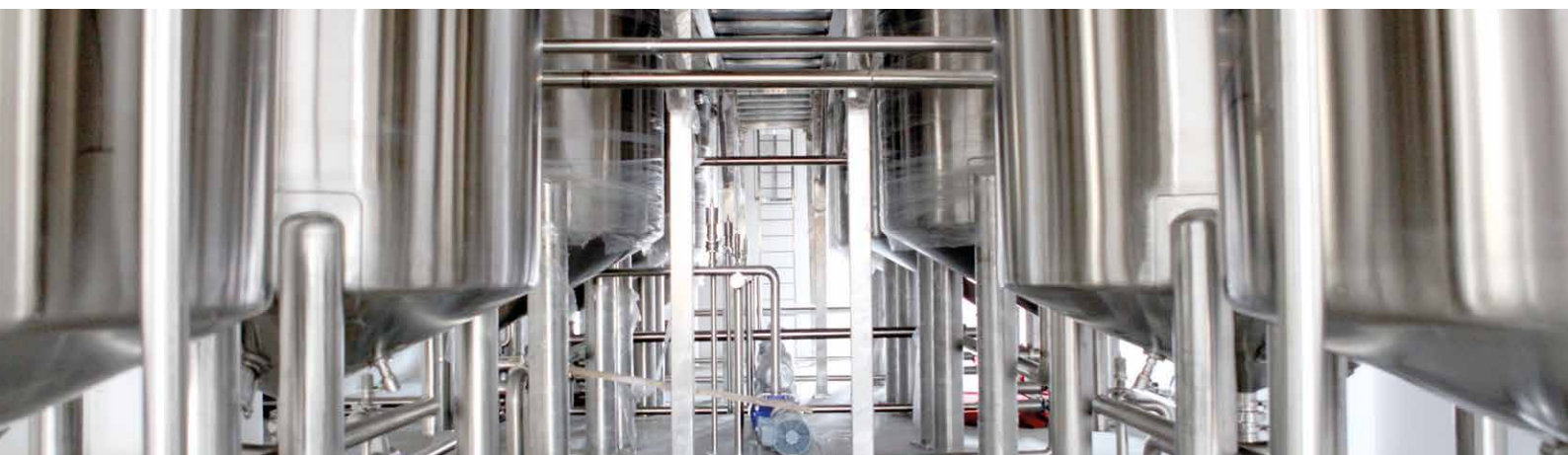
Straddle calculations - pro rata

Where a business has an accounting period that spans 31 December 2018, the maximum allowance for that period is potentially the sum of:

- the maximum AIA entitlement based on the £200,000 annual cap for the portion of the accounting period falling before 1 January 2019; and
- the maximum AIA entitlement based on the £1,000,000 cap for the portion of the accounting period falling on or after 1 January 2019.

So if Wimbledon Limited makes up its accounts to 30 June each year, then for the year ended 30 June 2019 the maximum AIA will be:

July 2018 – December 2018	6/12 × £200,000	£100,000
January 2019 – June 2019	6/12 × £1,000,000	£500,000
Total		£600,000



Limits and date of spend

Unfortunately, under the straddle rules (included in the Finance Bill), Wimbledon Limited cannot spend £600,000 at any time in the accounting period and claim AIA on the full amount. The rules state that for expenditure incurred before 1 January 2019, a limit will be introduced for the maximum figure available.

The maximum allowance will be the AIA that would have been due for the whole of the accounting period to 30 June 2019, if the increase in AIA had not taken place. This limit is £200,000 and is deemed to be the limit for the six months to 31 December 2018.

In the example, if Wimbledon Limited had spent £355,000 in the first six months of the accounting period relief would be limited to £200,000. Wimbledon Limited would be able to spend £400,000 (£600,000 - £200,000) in the six months to 30 June 2019 which will qualify for AIA.

However if Wimbledon Limited has not incurred any expenditure in the first six months, £600,000 AIA will be available for expenditure between 1 January and 30 June 2019.

So if Wimbledon Limited is considering incurring capital expenditure in excess of the available AIA, then it may be more beneficial to defer some of the expenditure until after 30 June 2019 as the full £1,000,000 AIA may be available. Wimbledon Limited could spend £1,000,000 in July 2019.

AIA set to revert to £200,000 from 1 January 2021

On 1 January 2021, the AIA will revert to £200,000. This will mean that for Wimbledon Limited will have an AIA in later periods as follows:

Accounting period to 30 June 2020		£1,000,000
Accounting period to 30 June 2021		
July 2020 – December 2020	6/12 x £1,000,000	£500,000
January 2021 – June 2021	6/12 x £200,000	£100,000
Total		£600,000

Prorate rules apply for the straddle down

The Finance Bill contains provisions to limit the available AIA for chargeable periods which straddle 1 January 2021. Where a business has an accounting period that spans 31 December 2020, the maximum allowance for that period is potentially the sum of:

- the maximum AIA entitlement based on the £1,000,000 annual cap for the portion of the accounting period falling before 1 January 2021; and
- the maximum AIA entitlement based on the £200,000 cap for the portion of the accounting period falling on or after 1 January 2021.

However, a further provision states that for expenditure incurred on or after 1 January 2021, the maximum allowance is restricted to the prorated portion of £200,000.

For Wimbledon Limited this will have the effect of restricting the qualifying spend in the period 1 January to 30 June 2021 to £100,000. Wimbledon Limited may spend the full allowance of up to £600,000 in the first part of the accounting period if they choose to do so, it is only the period from 1 January 2021 which is restricted.



WDA reduced on the special rate pool

The current rate of the WDA on the special rate pool of 8% is being reduced to 6% (from 6 April 2019 for unincorporated businesses and from 1 April 2019 for companies). The main rate pool WDA remains at 18%. Remember the special rate pool includes expenditure on higher emissions cars (in excess of 110 g/km) and integral features which have not been relieved by other allowances.

Transitional rules apply for accounting periods which span 1 or 6 April 2019. The rules result in a hybrid rate applying for the transitional period which will be between 8% and 6%.

Using the same example of Wimbledon Limited with its year end of 30 June 2019 would have a WDA of 7.5% (9/12 @ 8% plus 3/12 @ 6%).

Whilst the increase in AIA is good news for businesses, the reduction in the WDA is not. Why not update your clients on these changes with our **client letter**.