MANUFACTURING MATTERS

# Temporary increase of Annual Investment Allowance… but plan carefully to avoid missing out!

## Maximise the Reliefs Available

The Annual Investment Allowance ('AIA'), which gives up-front tax relief on investment in certain capital equipment, has been temporarily increased from £200,000 to £1m per annum for a two year period between 1 January 2019 and 31 December 2020.

This is great news for manufacturing businesses looking to invest in their plant and equipment over the next two years as it means that any expenditure on qualifying plant and equipment such as machinery, but not cars, up to a maximum of £1m will attract 100% tax relief in the year that it is purchased. At current rates, this is the equivalent to a £190,000 reduction in corporation tax in the year.

## Beware of the Traps

The timing of expenditure is key to maximising the reliefs available through AIA, as if investment is made without full consideration of this timing, some relief could be lost. Businesses need to be aware of the transitional rules that apply where an accounting period spans 1st January 2019 - the operative date of the increase.

## Example

Company A, which has an Accounting Year-end date of 31 March, spends £1m on new qualifying plant in January 2019.

The AIA available will be apportioned at the relevant levels across the period.

In other words the maximum AIA available will be as follows:

9 months at £200,000 = £150,000

3 months at £1,000,000 = £250,000

Total - £400,000

The maximum AIA available to company A for the year ended 31 March 2019 is £400,000 which is substantially less than the £1m headline figure. The balance above £400,000 in that period would fall into standard capital allowance regime and would receive Writing Down Allowances ('WDA') on a reducing balance basis at 18% per year.

Hence the allowances on this item of plant in the year to 31 March 2019 would be

AIA - £400,000

WDA - £600,000 x 18% = £108,000

Total - £508,000

This relief would be available against profits for the year ended 31 March 2019.

The tax deduction available in the following year would be £88,560, being 18% of the remaining Tax Written Down Value of the asset.

If the same item of plant was purchased on 1 April 2019, the full £1,000,000 would attract AIA.

Hence the allowances on this item of plant in the year to 31 March 2020 would be:

AIA - £1,000,000

WDA - £nil

Total - £1,000,000

This relief would be available against profits for the year-ending 31 March 2020, but full relief would be obtained in one year.

### What does this mean?

The above illustrates that when it comes to AIA, timing is everything. With careful planning of the investment in new plant and equipment, these allowances can be maximized, hence projects should be assessed at an early stage and the relevant impact on cash flow understood.

### How can we help?

Armstrong Watson's tax team are vastly experienced in assisting businesses with their proposed investments in plant and machinery in order to maximize the AIA and other reliefs available on such investment.

Additionally our team can help you to identify funding required to enable the investment to be made if that may be something that is holding the investment back.

For further information please contact Jim Lockhart on 0141 2330711 or your local manufacturing partner on 0808 144 5575.


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