

## **Annual investment allowance**

The annual investment allowance (AIA) is a capital allowance that enables a business to write off the cost of most items of plant and machinery in full against profits in the year in which the expenditure is incurred.

### **What qualifies?**

The AIA is available for most items of plant and machinery. This includes capital items used in the business, such as equipment, machines, computers and vans. Also included are integral features, some fixtures, such as fitted kitchens, and also alterations to install plant and machinery and any costs of demolishing plant and machinery.

### **And what doesn't?**

The main exclusion is cars. However, 100% first year allowances are available for new and unused cars with CO<sub>2</sub> emissions of 75g/km or less. Where first year allowances are not available, writing down allowances are given at the rate of 18% where the car is new and the CO<sub>2</sub> emissions are between 75g/km and 130g/km, or where the car is second-hand and the CO<sub>2</sub> emissions are below 130g/m. For cars (new and second-hand) where the CO<sub>2</sub> emissions are 130g/km or more, writing down allowances are given at the special rate of 8%.

### **Amount of the AIA**

For 12 month periods beginning on or after 1 January 2016, the AIA is set at £200,000. The allowance is adjusted proportionately for accounting periods of more or less than 12 months.

Once the allowance has been fully used up, any further capital expenditure on plant and machinery will attract writing down allowances only (unless it is of a type that qualifies for a first-year allowance).

The AIA must be claimed on the tax return.

### **Tailoring the claim**

It may not always be beneficial to claim the AIA in full. It is not an all or nothing claim and the allowance can be claimed in respect of some but not all of the expenditure. Also, there is no requirement to claim it – it may be preferable to claim writing down allowances instead or not to make a claim for a particular year. Whether and to what extent a claim is beneficial will depend on the circumstances and there is no substitute for crunching the numbers.

### **Example**

Stuart prepares accounts to 31 March each year. In the year to December 2016, he spends £220,000 on new machinery. He also needs to buy four new vans, which will cost him £100,000. He was planning to buy the vans in March 2017, but on the advice of his accountant, he delays the purchase until April 2017.

For the year to 31 March 2017, Stuart claims the annual allowance of £200,000 and writing down allowance of £3,600 on the remaining £20,000 of expenditure on the machinery.

In the year to 31 March 2018, he claims the AIA on the vans (plus the writing down allowance on the pool value).

By delaying the expenditure on the vans until April 2017, he is able to obtain immediate relief in full for the expenditure.