



STEWART ACCOUNTING SERVICES
Chartered Accountants



The Annual Investment Allowance (AIA)

The AIA is still one of the most widely used, and generous tax allowances that supports investment by smaller businesses. It allows business owners to write off the full cost of plant, equipment, computers and other capital purchases against their taxable profits (or to increase trading losses) in each tax year.

There is one notable exception: businesses cannot write off the full cost of a car using the AIA (unless the car is used as a business trading asset, say a taxi); tax allowances are available, but at much lower rates in the form of writing down allowances.

The AIA was set at £200,000 for all qualifying expenditure on or after 1 January 2016. Following the pandemic, this limit had been temporarily increased (with a number of subsequent extensions) to £1 million. The limit was permanently extended to £1 million with effect from 1 April 2023.

What happens if I claim AIA and then sell the underlying asset?

When you write off the full cost of an asset using AIA relief, as far as HMRC is concerned the asset in question has no value. Accordingly, if you subsequently sell the asset any proceeds received are a profit on sale for tax purposes and will be added to your taxable profits in the trading year in which you make the sale.

Do I have to claim the full cost?

The 100% write off is obviously the maximum you can claim, but there may be circumstances when you may want to claim less than 100%, and this is allowed by the legislation.

Why would you want to reduce your AIA claim?

The main reason for reducing a claim would be to protect your personal tax allowance if you are self-employed. For example, say your taxable profits before any AIA write off are £21,000 for 2026-27, and prior to the end of the relevant trading period you acquired a new van for £17,000. A van unlike a car can be written off under the AIA provisions, and if you write off the £17,000 your taxable profits would be £4,000. If this was your sole income for 2026-27, this £4,000 income would be less than your personal tax allowance.

Unfortunately, the unused proportion of your personal allowance would be wasted as the allowance can only be used in the current tax year. The sensible option would be to claim sufficient AIA to reduce your taxable income to the same amount as your tax-free allowance. You can carry forward any balance of cost to write off against profits of future tax years.



When is the AIA not available – apart from the purchase of a car?

You cannot claim the AIA in the final period of trading.

AIA is also unavailable for partnerships where one of the partners is a company or another partnership.

You can only claim one AIA if more than one business is controlled by the same person or operates from the same business premises. This counters activity designed to secure multiple AIA claims by businesses that are essentially under common ownership or control.

If two or more limited companies are controlled by the same person, they are only entitled to one AIA between them; they can choose how to split the AIA claim.



Other issues to consider

A 100% first-year capital allowance for qualifying plant and machinery assets was introduced on 1 April 2023. The measure, known as full expensing, was set to apply until 31 March 2026. At Autumn Statement 2023, the government announced that full expensing would be made permanent.

Full expensing is only available to companies and so unincorporated businesses, for example, sole traders or partnerships, do not qualify for the relief.

AIA claims will be restricted if the business' accounting period for tax purposes is less than 12 months. For example, if your company has an accounting period of nine months, the most you could claim is 9/12ths of the relevant AIA limit.

It is only possible to claim AIA when you buy the relevant asset. This is defined as:

- The date you signed a contract to buy if payment is due within 4 months of signing the contract.
- The date payment is due if this is more than 4 months after signing the contract.

If you buy an asset under a hire purchase agreement you can effectively claim the full cost (excluding any interest charges) when you start to use the item. If you are self-employed, you can only claim for business use of an asset. Any non-business use must be removed from your AIA claim. Self-employed traders may also need to consider if they should invest in new equipment purchases that qualify for the AIA by taking personal circumstances into account. If they are about to move to a new house, or buy their first property, or seek finance for other non-business purposes, depressing their income by claiming a hefty tax allowance would obviously affect their taxable income as agreed with HMRC. Lenders who only agree loans based on net taxable income criteria may be less than sympathetic when considering your loan or mortgage application. And finally, if you spend more than the AIA limit, you can claim any excess applying the usual writing down allowance rules.

Don't let tax relief skew your investment decisions

Very often we are asked to comment on a client's intention to make an investment in a new piece of equipment when, clearly, the over-riding objective is to secure additional tax relief. In most cases, investment that has no real impact on your ability to increase sales and profitability is best deferred, even when there is a tax advantage.

A self-employed person may be able to save themselves a marginal tax payment of up to 60% if they can bring their taxable income below £100,000. But, they will have to spend 100% of the cost to win back this 60% tax benefit – a loss of up to 40% of the hard-earned cash they have invested.

Conclusion

As mentioned at the beginning of this fact sheet, the AIA remains the most effective way to reduce your taxable profits and benefit from investment in new qualifying equipment.

It is especially beneficial for self-employed business owners, who pay tax on their business profits at the higher Income Tax rates. Utilising the AIA would reduce tax bills by 40% or 45% of the amount invested – up to the AIA limit.

If you are considering a sizeable investment in new equipment, we suggest that you check out the availability of the AIA, and the timing of expenditure to maximise tax savings. We would be delighted to help.



Summary action list

- When you are self-employed, check to ensure your AIA claim does not mean you are wasting your personal allowance.
- The AIA is especially beneficial if you are self-employed and paying Income Tax at the higher rates.
- Take advice prior to making your asset acquisition to ensure that you receive the maximum tax relief for your investment.
- Do not forget that you cannot claim the AIA in your final period of trading.
- Do not let the tax relief afforded by AIA encourage you to make an investment in equipment that will have a marginal benefit on your business sales and profitability.

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