

Significant Changes to Capital Allowances

The capital allowance regime will change significantly on 1 April 2012 for limited companies and on 6 April 2012 for sole traders and partnerships.

Currently, there is an annual investment allowance of **£100,000** per annum which means that qualifying expenditure on plant & machinery, including vans, is fully deductible against profits in the year of acquisition up to this maximum total expenditure. From April 2012 this annual allowance will fall to **£25,000** per annum. Any expenditure in excess of this amount will only qualify for an annual writing down allowance of 18% of cost.

For any business with a 31 March year end therefore, there will be a significant benefit in incurring any major plant and machinery investment before the year end when the higher rate of annual investment allowance will apply.

However the position becomes more complicated where the business year end spans 1/6 April 2012; In this case, any expenditure incurred prior to 1/6 April will get a proportionate amount of the £100,000 annual investment allowance, whilst any expenditure after 1/6 April 2012 will get a proportionate amount of £25,000 annual investment allowance but none of the £100,000 annual investment allowance.

For example, a business with a year end of 31 December 2012 maximum AIA claim would be based upon:

- (a) The proportion of a year from 1 January 2012 to 31 March 2012, that is $3/12 \times £100,000 = £25,000$; and
- (b) The proportion of a year from 1 April 2012 to 31 December 2012, that is $9/12 \times £25,000 = £18,750$.

The company's maximum annual investment allowance for this transitional chargeable period would therefore be the total of (a)+ (b) = $£25,000 + £18,750 = \mathbf{£43,750}$

However, if the company's actual expenditure was on the 01 April 2012 or later the maximum for that period would apply. This would mean only £18,750 is available.

Hence in this scenario if the business was buying new plant of vans it would be advantageous to do so **BEFORE 31 March 2012**.

Summary

If you are planning any significant capital expenditure in the next 12 months please contact us **URGENTLY** so we can advise on the best timing to do so.

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