Annual Investment Allowance

increased to £1m by HMRC to help UK businesses invest in equipment

Why it's easier to plan spending this year

UK government has always allowed businesses to reduce their tax bills by investing in capital equipment.

As long as businesses make a profit, they pay either income tax (unincorporated businesses), or corporation tax (limited companies). Tax liability is calculated as a percentage of pre-tax profits.

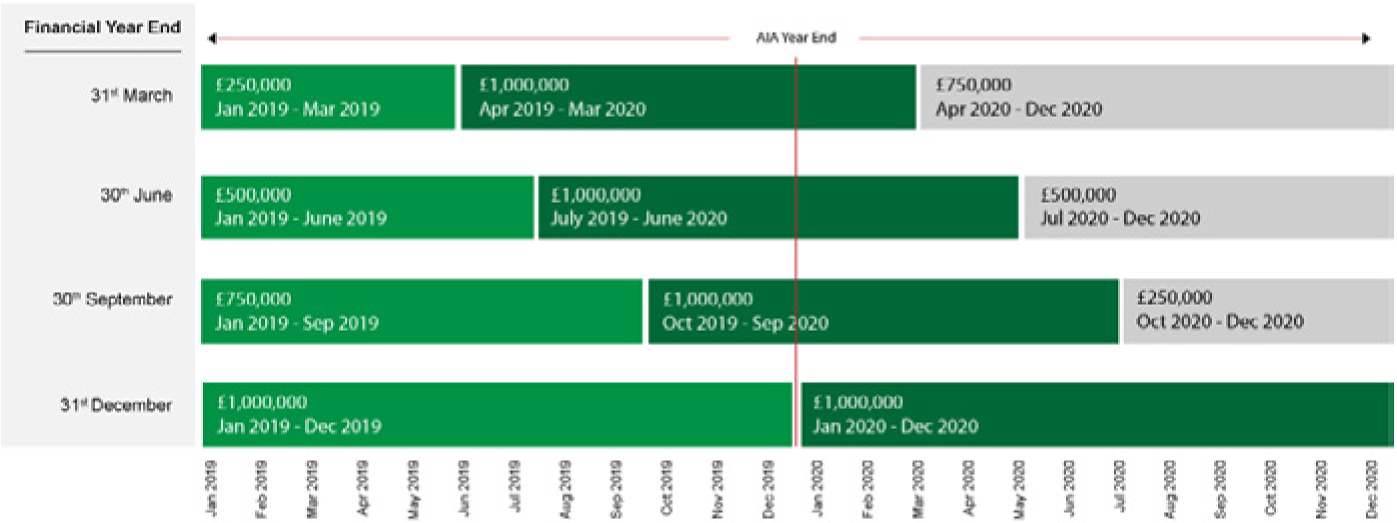
However, buying capital equipment can reduce your tax bill. Because it's viewed as an operating expense, HMRC deducts the cost of qualifying equipment from taxable profits.

Capital expenditure: the time is now

The Annual Investment Allowance (AIA) has been set at £1m for 2019 and 2020; the highest allowance set by government since being introduced in 2008.

This means you can buy qualifying business assets up to £1m, and offset the whole cost against tax for 2019 and 2020 calendar year.

With the changes in allowance you will be required to calculate your entitlement for the fiscal year end. Use the chart below to help. Where your accounting period overlaps you will need to take into account AIA set for that time period.



AIA: rules to consider before you invest

To maximise tax relief on any capital investment, make sure you're aware of the rules beforehand.

Here are a few important considerations for AIA:

- For equipment to qualify, it's not enough to buy it. It must be in use by the end of the year in which you claim the allowance – and that includes assets bought on hire purchase. HMRC employ agents who know the difference between a cultivator and a combine, and can keep track of seasonal purchases.
- You must provide a purchase invoice to HMRC for any capital equipment, no matter how it is acquired. The date must fall within the period in which you're claiming the allowance.
- If you're an unincorporated partnership, you can't claim AIA if one of the partners is a company or another partnership.
- A group of companies shares one AIA. The same applies where two or more businesses are controlled by the same person.

When you can claim

You can only claim AIA in the period you bought the asset.

The date you bought the asset is:

- when you signed the contract if payment is due within 4 months
- when payment's due, if it's due more than 4 months later.

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LEASING SOLUTIONS

Explore two ways to fund capital equipment:

1 **Credit agreement** (Hire Purchase)

2 **Hire agreement** (Finance Lease)

1 Credit agreement (Hire Purchase)

Hire Purchase is a type of credit agreement that counts towards your AIA in the same way as buying the asset outright. It lets the eventual owner of an asset pay for it gradually, giving financial security and predictability. It's flexible, with a wide range of options for the deposit amount, repayment amount and repayment frequency.

Payments can even be matched to a seasonal income cycle. And because all terms are agreed upfront, a Hire Purchase agreement protects you against any increase in interest rates during the life time of the contract.

Any interest you pay as part of the agreement counts as a business expense and therefore reduces your tax liability.

2 Hire agreement (Finance Lease)

Hire agreements, such as a Finance Lease, let you hire equipment for a set period of time. Once the agreement ends, you simply return the equipment. The initial cost is low with all payments (including VAT) repaid across the contract period. As with a Hire Purchase agreement, you lock in the interest rate at the time of signing therefore protecting yourself against any increases during the agreement term.

For added peace of mind, service and maintenance costs can be bundled into the repayment plan.

The rental payments count as a business expense, so they reduce pre-tax profits and the amount of tax you pay. HMRC works this out annually, based on the length of the lease.

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