

Capital allowances – action required

The purpose of this bulletin is to warn clients about action that may be required before 5 April 2012 (1 April for companies) to maximise capital allowances (CAs).

Annual Investment Allowance (AIA)

The AIA provides 100% relief for the first £100,000 of qualifying expenditure (but excludes cars). It is set to reduce to £25,000 from April 2012.

But an allowance of £25,000 will be more than sufficient for my business

If an accounting period overlaps the change on 5 April 2012 (1 April 2012 for companies) there is a problem because there is a restriction on the maximum expenditure that can qualify between 6 April 2012 (1 April 2012 for companies) and the year-end. This is best explained using an example. An individual has a 30 April 2012 year end and as a result of time apportioning the maximum AIA available is £94,863 (1 May 2011 to 5 April 2012: 340/365 days at £100,000 plus 6 April 2012 to 30 April 2012: 25/365 days at £25,000). But for any expenditure in the final 25 days to 30 April 2012 the maximum allowance is just £1,712 (25/365 days at £25,000). In fact if the individual has not incurred any qualifying expenditure during the earlier part of the accounting period to 5 April 2012, the maximum AIA for the whole year ended 30 April 2012 will be limited to the £1,712.

What should I do?

If this situation applies consider bringing forward the expenditure to before 6 April 2012 (1 April for companies). For a 30 April 2012 year end this will allow a 100% claim on expenditure of up to £93,151 (340/365 days at £100,000). Please note that this is essentially about the timing of capital allowances and writing down allowances (up to 20% p.a.) can be claimed against the balance of expenditure not covered by the AIA. So tax relief is obtained but over several years plus. In any case, enhanced capital allowances may also be available at 100% for expenditure on certain energy saving and/or environmentally beneficial plant or machinery. .

Claims relating to buildings

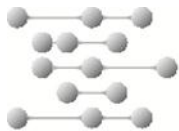
CAs can be claimed on plant contained within buildings and on refitting and refurbishment thereof. The tax return filing deadline (companies and individuals) is the time limit for making a claim in respect of a particular accounting period. However, making a claim is not mandatory and at present there is no time limit between incurring expenditure qualifying as plant for capital allowances purposes and claiming it.

What's changing?

HM Revenue & Customs have issued a consultation document and propose to legislate a time limit for making a claim of one or two years from the end of the accounting period in which the expenditure is incurred. The Government is considering whether the new time limit should apply to expenditure incurred before the introduction of the proposed change and we should have more details in December.

But haven't I already made a claim?

There are a number of reasons why a claim may not have been made, for example, claiming the



allowance may have resulted in increased losses which could only be carried forward against future profits from the same trade, leaving income from other sources subject to a tax charge in later years.

What should I do?

We recommend that the position be reviewed before April 2012 to identify any additional claims that can be made. In contrast to the previous matter, if allowances are not claimed in time there will be a permanent loss of tax relief.

Contact us

The purpose of this bulletin is to alert you to the changes in general and the potential need for advice for which please telephone or email your usual contact partner.

This memorandum is for guidance only and professional advice should be obtained before acting on any information contained herein as no responsibility can be accepted by Citroen Wells for loss occasioned to any person as a result of action taken or refrained from in consequence of its contents.

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