

Temporary increase in AIA

(Lecture B1117 – 11.00 minutes)

At the October 2018 Budget, the Chancellor announced a large, temporary increase in the Annual Investment Allowance (AIA). It rose from £200,000 p.a. to £1m p.a. on 1 January 2019 but will revert back to £200,000 on 1 January 2021.

This change has clearly been made to encourage investment in what are uncertain economic times but, as with previous changes in the AIA limit, businesses will have to be careful of the transitional rules (unless they have a December year-end).

Example 1

A business has a 30 April 2019 year-end. The maximum AIA for this period would be:

The proportion of the period from 1 May 2018 to 31 December 2018

i.e. $8/12 \times £200,000 = £133,333$ and

The proportion of the period from 1 January 2019 to 30 April 2019

i.e. $4/12 \times £1,000,000 = £333,333$

This gives a total of £466,666 (£133,333 + £333,333) but no more than a maximum of £200,000 of the company's actual expenditure in the first period to 31 December 2018 can qualify for AIA.

Example 2

A company with a 31 March 2021 year end would calculate its maximum AIA entitlement based on:

The proportion of the period from 1 April 2020 to 31 December 2020

i.e. $9/12 \times £1,000,000 = £750,000$; and

The proportion of the period from 1 January 2021 to 31 March 2021

i.e. $3/12 \times £200,000 = £50,000$

The company's maximum AIA for this transitional chargeable period would therefore be the total of £800,000 (£750,000 + £50,000 = £800,000).

However, in relation to the latter period, no more than £50,000 of the business's actual expenditure in that part period would be covered by its transitional AIA entitlement.

Contributed by Kevin Read