

# Annual Investment Allowance (AIA) decreases

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**Annual Investment Allowance (AIA) decreases from £1 million to £200,000 from January 2022- check the detail before you place your order!**

With the 2021 harvest behind us and autumn drilling underway, you may be thinking ahead to machinery requirements and potential purchases. Conversations with clients and machinery suppliers suggest production lines are struggling and supply, even of second-hand machines, is being delayed. Farmers can't purchase a new machine so aren't yet passing on the old one.

You have until 1 January 2022 to claim up to £1m in same-year tax relief through the Annual Investment Allowance (AIA) for capital investment in machinery and plant. After this deadline, the allowance will reduce to £200,000. With this in mind, it is important to take into account the changes to the Annual Investment Allowance (AIA).

## **What is the Annual Investment Allowance (AIA)?**

Introduced in 2008, the AIA allows a 100% tax-free allowance for qualifying plant, machinery, and office expenditure incurred in an accounting period up to a specified annual amount each year. It is a key tax planning tool for any business, facilitating tax-efficient expansion and development.

## **How much is the Annual Investment Allowance?**

Currently, it is at £1 million. This will reduce to just £200,000 on 1 January 2022. Up until 31 December 2018, AIA was capped at just £200,000 per year. This limit was temporarily increased to £1 million per year for each of the following two years and then extended to 31 December 2021. As of 1 January 2022, the AIA limit will revert back to £200,000.

There are transitional rules in place to deal with the reduction in AIA. The timing of purchase is important: if 31 December 2021 falls in the middle of your accounting period, allowances could be less than expected.

## **How does the Annual Investment Allowance work?**

If your business has a 31 December 2021 year-end, the relief is straightforward. However, if your business has a year-end which spans 1 January 2022, transitional rules will apply and the AIA entitlement before and after 1 January is:

A) Based on the £1,000,000 allowance pre 1 January 2022, apportioned for the

number of months making up the accounting period falling before 1 January 2022.

B) Based on the £200,000 allowance post 1 January 2022, apportioned for the number of months making up the accounting period falling after 1 January 2022.

A + B are then added together to calculate the maximum potential AIA for the accounting period subject to the transitional rules.

For example, if your business has a 31 March 2022 year-end, your AIA entitlement would be as follows:

A)  $£1,000,000 \times 9 \text{ months} = £750,000$  (1 April 2021 – 31 December 2021)

B)  $£200,000 \times 3 \text{ months} = £50,000$  (1 January 2022 – 31 March 2022)

A + B = Maximum potential AIA = £800,000

### **How can the AIA become complicated?**

#### **Timing**

In addition to the above, the AIA claim is also determined by the date on which the expenditure is incurred (normally the date the contract became unconditional). There is a further cap when the limit reduces, which restricts the AIA limit to the proportion of the AIA in that part of the accounting period.

In the above example, if the business purchased an item of machinery costing £400,000 on 30 September 2021, and then another costing £400,000 on 28 February 2022, it could appear that the total allowable expenditure of £800,000 would qualify for AIA at 100%.

However, the second item of machinery was purchased in the period after 31 December 2021. This means that the claim for that period is restricted to the AIA limit applying to 1 January 2022 – 31 March 2022 i.e. £50,000.

Therefore the AIA claim for the period is £450,000, (£400,000 for the first machine and £50,000 for the second). The remaining £350,000 of expenditure will qualify for Capital Allowances at the standard rate of 18%. If both pieces of machinery had been purchased before 31 December 2021, the maximum AIA of £800,000 could have been claimed.

If you are thinking about purchasing “plant and machinery” it is crucial that you make these purchases as soon as possible. It’s critical to get the most benefit from the AIA being at an increased rate of £1 million.

#### **Business structure**

Partnerships with members who are not individuals cannot claim AIA. For example, a partnership with a company as a member is not eligible to claim. Similarly, trusts do not qualify to claim.

#### **Source of finance – hire purchase**

Purchasing an asset on hire purchase makes things more complicated. In these circumstances, AIA cannot be claimed on payments until the asset is ‘brought

into use'. Hire purchase usually means that you do not technically own the machinery until a significant payment is made at the end of the contract, to purchase the asset. Therefore, you may want to consider a different way of financing the purchase if you know you can't bring the new asset into intended use by the year end. This rule is typically relevant for out of season purchases of combines, balers, etc.

Please speak with us before making a significant purchase, especially on a hire purchase agreement or other deferred finance. Attractive finance offers may have adverse tax outcomes!

### **Trade in or sale of old kit**

Selling old kit in one accounting year, and replacing it in the next, can cause taxable results, and tax liabilities, to “see-saw”.

### **What can you claim Annual Investment Allowance on?**

You are able to claim allowances on items that you ‘keep to use in your businesses. These items are classed as ‘plant and machinery’ and include:

- Tractors, combine harvesters and other agricultural machinery, (as well as computers, office equipment, vans, lorries, and all kinds of business machines).
- costs of demolishing plant and machinery
- parts of a building considered integral, known as ‘integral features’
- cars used in the business
- some fixtures, for example, fitted kitchens or bathroom suites when used in a business
- alterations to a building to install plant and machinery – this does not include repairs

Find the full list of items you can claim under your AIA on the [UK Government website](#).

### **We can help your business buy machinery in a tax-efficient way.**

If you are unsure of your limits or would like further advice on how to best utilise your AIA fully, please get in touch. You can contact your usual Ellacotts contact or Agricultural Manager, [Sara Burgess](mailto:sburgess@ellacotts.co.uk) on [sburgess@ellacotts.co.uk](mailto:sburgess@ellacotts.co.uk) or 01536 646000

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