AIA – arithmetical intricacies amendable?

Large Corporate **OMB**

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ATT responds to the call for evidence from the Finance Bill committee

An article in the May 2014 issue of Tax Adviser explained how the transitional rules would affect the calculation of the maximum annual investment allowance (AIA) entitlement for the 'second straddling period' – typically, a business year that both began before and ended after 31 December 2015. It illustrated the surprising restriction on the availability of AIA on expenditure incurred on or after 1 January 2016 in that business year.

With the ending of the temporary £500,000 AIA limit on 31 December 2015, the transitional rules would restrict maximum AIA available on expenditure incurred in that latter part of the straddling period to the time-apportioned fraction of the ongoing annual limit of £25,000 (the figure specified in CAA 2001 s 51A). So, for a business with a year-end of 31 January 2016, if all its qualifying expenditure in that year was incurred after 31 December 2015, its effective AIA entitlement for the whole year would have been capped at just £2,083 (being one-twelfth of £25,000). That compared dramatically with the business's AIA capacity of £460,416 in relation to qualifying expenditure if it had all been incurred in the first part of the straddling period.

The welcome announcement in the summer Budget that the s 51A annual limit would be increased to £200,000 from 1 January 2016 has usefully changed the arithmetic. Using the same scenario of a business with a 31 January 2016 year end with all its qualifying expenditure of the year being incurred in January 2016, the transitional rules now produce an effective AIA limit of £16,667 (one-twelfth of £200,000) on such expenditure.

However, the increase in the ongoing annual limit from £25,000 to £200,000 fails to address the inherent illogicality in the transitional rules. Why should the transition from a temporary £500,000 annual limit to a permanent one of £200,000 mean that AIA on expenditure incurred after the change should be limited to a time-apportioned fraction of the reduced limit?

In its submission of written evidence to the Finance Bill Committee, the ATT has suggested an amendment to the transitional rules. This would ensure that the effective AIA limit for the whole of the straddling period could not be less than the summer Budget headline figure of £200,000 – regardless of when that expenditure was incurred in the year.

As drafted, the amendment would make no difference to any business that incurred £200,000 or more of qualifying expenditure in the part of its year up to 31 December 2015. What it would in effect do is enable the carry-forward of any part of a hypothetical limit of £200,000 that was not used in the period up to 31 December 2015. If (but only if) that amount was greater than the time-apportioned fraction of the £200,000 (as calculated under the current transitional rules), that would be the cap for AIA on expenditure incurred between 1 January 2016 and the end of the straddling period. The beneficiaries of the ATT amendment would accordingly be businesses whose pattern of qualifying expenditure in the straddling period was weighted to the part of the period after 31 December 2015.