



Other issues to consider

A new super-deduction offering 130% first-year tax relief for companies was introduced on 1 April 2021. The temporary tax relief applies to the purchase of qualifying equipment and other capital asset acquisitions until 31 March 2023. The super-deduction is designed to help companies finance expansion in the wake of the coronavirus pandemic and help to drive growth.

Whilst available, this super-deduction would be the better option for most companies. Unfortunately, the super-deduction is only available to companies and so unincorporated businesses, for example, self-employed traders or partnerships, do not qualify for the relief.

AIA claims will be restricted if the business' accounting period for tax purposes is less than 12 months. For example, if your company has an accounting period of nine months, the most you could claim is 9/12ths of the relevant AIA limit.

It is only possible to claim AIA when you buy the relevant asset. This is defined as:

- The date you signed a contract to buy if payment is due within 4 months of signing the contract.
- The date payment is due if this is more than 4 months after signing the contract.

If you buy an asset under a hire purchase agreement you can effectively claim the full cost (excluding any interest charges) when you start to use the item. If you are self-employed, you can only claim for business use of an asset. Any non-business use must be removed from your AIA claim. Self-employed traders may also need to consider if they should invest in new equipment purchases that qualify for the AIA by taking personal circumstances into account. If they are about to move to a new house, or buy their first property, or seek finance for other non-business purposes, depressing their income by claiming a hefty tax allowance would obviously affect their taxable income as agreed with HMRC. Lenders who only agree loans based on net taxable income criteria may be less than sympathetic when considering your loan or mortgage application. And finally, if you spend more than the AIA limit, you can claim any excess applying the usual writing down allowance rules.

Don't let tax relief skew your investment decisions

Very often we are asked to comment on a client's intention to make an investment in a new piece of equipment when, clearly, the over-riding objective is to secure additional tax relief. In most cases, investment that has no real impact on your ability to increase sales and profitability is best deferred, even when there is a tax advantage.

A self-employed person may be able to save themselves a marginal tax payment of up to 60% if they can bring their taxable income below £100,000. But, they will have to spend 100% of the cost to win back this 60% tax benefit – a loss of up to 40% of the hard-earned cash they have invested.

Conclusion

As mentioned at the beginning of this fact sheet, the AIA remains the most effective way to reduce your taxable profits and benefit from investment in new qualifying equipment.

It is especially beneficial for self-employed business owners, who pay tax on their business profits at the higher Income Tax rates. Utilising the AIA would reduce tax bills by 40% or 45% of the amount invested – up to the AIA limit.

If you are considering a sizeable investment in new equipment, we suggest that you check out the availability of the AIA, and the timing of expenditure to maximise tax savings. We would be delighted to help.



Summary action list

- When you are self-employed, check to ensure your AIA claim does not mean you are wasting your personal allowance.
- The AIA is especially beneficial if you are self-employed and paying Income Tax at the higher rates.
- Take advice prior to making your asset acquisition to ensure that you receive the maximum tax relief for your investment.
- Do not forget that you cannot claim the AIA in your final period of trading.
- Do not let the tax relief afforded by AIA encourage you to make an investment in equipment that will have a marginal benefit on your business sales and profitability.

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