

Circulation: All members

Date: 28 June 2010

Ref: Capital Allowances –post 22.06.10

Contact: Michael Parker

Tel: 02476 858722

June 2010 Emergency Budget – Capital Allowances changes

This brief sets out the changes to the capital allowances regime announced in the Emergency Budget on 22 June 2010.

Annual Investment Allowance

The Annual Investment Allowance allows tax relief for purchases of plant & machinery against profits. The relief is given in the accounting period when the plant & machinery is purchased up to a maximum limit.

The Annual Investment Allowance limit was originally set at £50,000 per annum up to 31 March 2010 for companies and 5 April 2010 for sole trader/partnerships. This limit was then increased to £100,000 per annum from 1 April 2010 for companies and 6 April 2010 for sole traders/partnerships in the March 2010 Budget.

In the June 2010 Emergency Budget it was announced that the Annual Investment Allowance would reduce to £25,000 with effect from 1 April 2012 for companies and 6 April 2012 for sole traders/partnerships.

This reduction in the Annual Investment Allowance will fund reductions in the rates of Corporation Tax.

Writing down Allowances

The rates of writing down allowances will also reduce with effect from 1 April 2012 for companies and 6 April 2012 for sole traders/partnerships.

The general rate of 20% will reduce to 18% and the special rate of 10% will reduce to 8%.

Further details of the changes announced today can be found in HMRC Budget Note BN04, which can be found [here](#).

Example

An investment in new plant & machinery will cost £60,000, all of which qualifies for the general rate for writing down allowances.

If the investment is made prior to the reductions in the Annual Investment Allowance and writing down allowances in 2012, then the entire cost of £60,000 can be relieved in the period of expenditure.

If however the investment is made after the change in the rate of the Annual Investment Allowance the relief will be given as:

Year 1	£31,300 (£25,000 Annual Investment Allowance + £6,300 WDA)
Year 2	£5,166
Year 3	£4,236
Year 4	£3,474
Year 5	£2,848
Year 6	£2,336
Year 7	£1,915
Year 8	£1,570
Year 9	£1,288
Year 10	£1,056

This would mean that it will take 10 years to relieve £55,189 of the £65,000 expenditure. The balance of £9,811 would then be relieved in subsequent years.

Summary

The NFU did make a number of submissions to the Government highlighting the impact for farm businesses of reducing capital allowances. We also highlighted that as the majority of farm businesses operate as unincorporated businesses they do not benefit from the reductions in the rate of Corporation Tax that the reduction in capital allowances funds.

The changes announced will lengthen the period over which tax relief is given on investments in plant & machinery, although they do not alter the amount of tax relief. The changes announced are however less severe than the original suggestion of abolishing the Annual Investment Allowance and a much greater reduction in the rate of writing down allowances.

Many farm businesses will make investments in plant & machinery in excess of £25,000 per annum in the short to medium term. Consideration might therefore be given to bringing forward investment, where possible, in order to maximise the expenditure qualifying for the Annual Investment Allowance limit before it reduces in 2012.