



30 Monck Street
London
SW1P 2AP

T: 020 7340 0551
E: info@att.org.uk
W: www.att.org.uk

ANNUAL INVESTMENT ALLOWANCE (AIA)

Budget Representation by Association of Taxation Technicians

1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to make representations in relation to the 2023 Budget.
- 1.2 The ATT welcomes the confirmation at the Autumn Statement on 17 November 2022 that the permanent level of the AIA will be increased to £1,000,000 from 1 April 2023¹ but is concerned that this could cause unintended consequences for businesses with qualifying expenditure in the second straddling period. The ATT recommend that Government should introduce legislation to delete sub-paragraph 2(3) of Schedule 13, Finance Act 2019 in its entirety, thus facilitating the unbroken entitlement to an AIA of a full £1,000,000 for periods which straddle 1 April 2023 (which many businesses and their advisers may consider has already been promised).
- 1.3 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

2 Background to our proposal

- 2.1 Section 12, Finance Act 2022 extended the duration of the temporary increase to £1,000,000 of the AIA which had been introduced by section 32, Finance Act 2019 (and already extended by section 15, Finance Act 2021) to 31 March 2023.
- 2.2 The Autumn Statement of 17 November 2022 confirmed that the permanent level of the AIA will be increased to £1,000,000 from 1 April 2023.
- 2.3 Thus, the maximum AIA is £1,000,000 both before and from 1 April 2023. The absence of any change in the AIA limit between 31 March 2023 and 1 April 2023 might be expected to avoid the strange arithmetic

¹ Legislation to achieve the permanent increase was not included in the very brief Finance Bill published on 22 November but this note proceeds on the basis that such legislation will follow.

intricacies associated with the ending of a temporary increase. That welcome outcome would, however, require the provisions in respect of straddling periods to be amended.

- 2.4 Paragraph 2 of Schedule 13 Finance Act 2019 prescribes how the AIA operates in a chargeable period which begins before 1 April 2023 and ends on or after that date (referred to as the 'second straddling period').
- 2.5 Paragraph 2(2) requires the maximum allowance for the second straddling period to be determined by adding together the time-apportioned allowances for the part of the period before 1 April 2023 and the part of the period starting on that date. With the AIA limit being the same both before and from 1 April 2023, the maximum allowance for any twelve-month second straddling period will itself be £1,000,000. For any business with a chargeable period that straddles 1 April 2023, that means that their AIA limit in respect of expenditure incurred **before** 1 April 2023 in that period will be £1,000,000. Taking the example of a business with a second straddling period ending on 31 December 2023, it would be entitled to a maximum allowance of £1,000,000 if all of its expenditure in that period was incurred no later than 31 March 2023. That is because the limit in that first part of the second straddling period is that for the whole chargeable period².
- 2.6 Paragraph 2(3), however, requires the maximum allowance in respect of the later part of the second straddling period which **begins on** 1 April 2023 to be restricted to its own time-apportioned allowance. Staying with the example of a business with a 31 December 2023 year-end, if all of its qualifying expenditure in that chargeable period was incurred on or after 1 April 2023, its maximum allowance would (using round months) be £750,000 (being nine-twelfths of £1,000,000). It would not be able to access the unused time-apportioned £250,000 from the previous three months. This is likely to come as a surprise to many taxpayers, and their advisers given that there has been no effective change in the overall AIA limit.
- 2.7 The sooner the second straddling period ended after 31 March 2023, the more drastic the effect of the paragraph 2(3) restriction would be. For a business with a 30 June 2023 year-end, the AIA limit on expenditure incurred after 31 March 2023 would be £250,000 (three-twelfths of £1,000,000) even if it had incurred no qualifying expenditure at all before 1 April 2023.
- 2.8 Introducing legislation to delete sub-paragraph 2(3) of Schedule 13, Finance Act 2019 in its entirety would facilitate the unbroken entitlement to an AIA of a full £1,000,000 for the second straddling period thus eliminating any need for an unexpectedly restricted time-apportioned allowance.

3 Contact details

- 3.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact our relevant Technical Officer, Steven Pinhey on atttechnical@att.org.uk.

The Association of Taxation Technicians

4 Note

- 4.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice.

² The legislation effectively permits expenditure incurred before 1 April 2023 to 'borrow' the time-apportioned AIA limit for the part of the chargeable period beginning on that date.

One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government, and academia.

The Association has more than 9,000 members and Fellows together with over 5,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.