



30 Monck Street
London
SW1P 2AP

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

ANNUAL INVESTMENT ALLOWANCE

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 2021 Budget.
- 1.2 The ATT considers that an amendment should be introduced to s15 Finance Act 2021 to ensure that smaller businesses are not disadvantaged by the Annual Investment Allowance (AIA) limit reducing from £1m to £200,000 on 1 January 2022.
- 1.3 Currently, the transitional rules which apply when the AIA limit reverts to £200,000 on 1 January 2022 can result in a business having its effective AIA limit restricted to significantly less than £200,000 for a period. The businesses most likely to be hit by this are those smaller businesses that are least likely to have been able to benefit from the temporary increase in the AIA limit.
- 1.4 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 Our recommendation

- 2.1 In order to prevent businesses being disadvantaged by the reduction of the AIA limit on 1 January 2022 from £1m to £200,000, s15 Finance Act 2021 should be amended to ensure that, for the year of change, is available on expenditure of up to £200,000 regardless of when it was incurred within the year.
- 2.2 An illustrative amendment to achieve that objective is as follows:

Amend s15 Finance Act 2021 by adding a new sub-clause (3) as follows:

(3) In paragraph 2(3) of Schedule 13 of that Act –

(a) after “second straddling period is” insert “the greater of (a)” and

(b) after “of that sub-paragraph” add “and (b) the amount (if any) by which the maximum allowance under section 51A of CAA 2001 had there been no temporary increase in the allowance exceeds the AIA qualifying expenditure incurred before 1 January 2022.”

3 Background to our recommendation

- 3.1 The AIA concept was introduced in April 2008 as part of wider reform of capital allowances. It provides full tax relief on qualifying expenditure on plant and machinery in the chargeable period in which a business incurs that expense, subject to a statutory limit. Expenditure above that limit is normally written off more slowly through writing down allowances.
- 3.2 Following a number of changes, the AIA limit was set at a ‘permanent’ level of £200,000 per annum from 1 January 2016. This permanent level applied until 1 January 2019, when a temporarily increased limit of £1m was introduced. This temporary increase was due to expire on 31 December 2020, but was extended a further year to 31 December 2021 by s15 of Finance Act 2021.
- 3.3 From 1 January 2022, in the absence of any further legislative change, the AIA limit will revert to its permanent level of £200,000.
- 3.4 The obvious beneficiaries of the current temporarily increased AIA limit of £1,000,000 have to date been businesses (whether incorporated or unincorporated) with annual qualifying capital expenditure in excess of £200,000.
- 3.5 What is less obvious from those numbers is that the c.97% of businesses with annual qualifying expenditure below the permanent £200,000 AIA limit can be adversely impacted by the temporary increase. This arises if the business has a chargeable period (accounting year) which began before a drop in the AIA limit, but ends after that drop. An example here would be a business with a 31 March or 5 April accounting year end – which is very common amongst smaller businesses. The transitional provisions which apply restrict the available AIA for the part of the period after the limit change to the time-apportioned fraction of the permanent £200,000 limit. This is illustrated in the example below:

A business (sole trade or partnership) has a year end of 31 March.

In its year to 31 March 2022, its total AIA limit is £800,000 (being 9/12 of £1,000,000 plus 3/12 of £200,000). [See paragraph 2, schedule 13, FA 2019 as amended by s15 FA 2021].

However, in relation to expenditure incurred in that year but on or after 1 January 2022, the available AIA limit is only 3/12 of £200,000 = £50,000. That applies even if the business incurred no qualifying expenditure in the nine months to 31 December 2021.

The impact of the temporary increase is to confine the effective AIA limit for a twelve-months period to £50,000. If there had been no temporary increase, AIA would have been available on up to £200,000 of qualifying expenditure regardless of the timing of expenditure within the year.

- 3.6 Businesses within the charge to corporation tax (such as limited companies) will in most cases be insulated from the impact identified in 3.5 above as the temporary super-deduction (introduced by s9 of Finance Act 2021) is likely to be available to them on the same expenditure which would otherwise have been dependent on the AIA for early relief. However, the issue remains for unincorporated businesses such as sole traders and partnerships.

4 Contact details

- 4.1 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, Emma Rawson on erawson@att.org.uk.

The Association of Taxation Technicians

23 September 2021

5 Note

- 5.1 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. 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.