

Finance Bill 2021

Representation from the Association of Taxation Technicians (ATT)

Clause 15: Extension of temporary increase in annual investment allowance

Executive Summary

Clause 15 extends the availability of the temporarily increased level of annual investment allowance (“AIA”) by a further year to 31 December 2021.

While the maintenance of a high AIA will be broadly welcomed by eligible businesses the wider picture is that the chopping and changing of AIA levels is unhelpful as it adds complexity to the system and creates traps that can disadvantage some businesses.

Specifically, 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 businesses least likely to be able to benefit from the temporary increase in the AIA limit.

There is an opportunity to amend the transitional provisions in order to ensure that smaller businesses with lower levels of qualifying capital expenditure are not actually disadvantaged by a temporary increase which cannot benefit them.

1. Background

- 1.1. The AIA concept was introduced in April 2008 as part of wider reform to capital allowances.
- 1.2. 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 a writing down allowance.
- 1.3. The AIA limit was initially set at £50,000. After two years, it was increased to £100,000 but, after another two years, it was cut to £25,000 (from 1 April 2012).
- 1.4. FA2013 introduced the concept of a temporary increase in the AIA limit. The temporary £250,000 limit was intended to last for only fifteen months from 1 January 2013 but FA2014 extended the availability by 21 months (to 31 December 2015) and increased the temporary annual limit from £250,000 to £500,000.
- 1.5. From January 2016, the AIA limit reverted to its non-temporary (“permanent”) limit but that was increased at the same time from £25,000 to £200,000 by F(No2)A 2015.
- 1.6. The £200,000 permanent AIA limit applied for the three years to 31 December 2018. From 1 January 2019, a new temporarily increased limit of £1,000,000 was introduced for the two years to 31 December 2020. Clause 15 extends the availability of that temporary limit for a further year to 31 December 2021.
- 1.7. From 1 January 2022, in the absence of any further legislative change, the AIA limit will revert to its permanent level of £200,000.

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1.8. In summary, there have been seven different AIA limits since April 2008. In the nine years from its introduction in January 2013 until 31 December 2021, the temporary limit will have applied for twice as many months as the permanent limit.

1.9. In paragraph 62 of its [Tax after coronavirus](#) report, the Treasury Committee commented:

The Annual Investment Allowance is valued by business and it appears well targeted to promote growth in small and medium-sized enterprises. As with all tax reliefs there is likely to be some deadweight cost; but we urge the Government to look favourably on further extension and possibly permanency at the existing level, which would provide welcome certainty to small and medium-sized enterprises.

We agree that such extension or permanency would be welcome for many businesses in terms of providing certainty – although, as we suggest below, for smaller businesses an opt-out provision might be a better solution.

2. Surprising impact of the temporary increase in the AIA

2.1. 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.

2.2. An OTS report of June 2018 noted that only about 30,000 businesses incur more AIA qualifying expenditure than the permanent limit whilst the other 1.2 million businesses spend less than the AIA limit. Subject to any changes since 2018, this indicates that any temporarily increased AIA limit is unlikely to be of any benefit to over 97% of businesses.

2.3. What is less obvious from those numbers is that the 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. 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 Clause 15].

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 in that situation is to confine the effective AIA limit for a twelve-month 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.

2.4. Businesses within the charge to corporation tax (such as limited companies) will in most cases be insulated from the impact identified in 3.3 above as the temporary super-

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deduction (introduced by Clause 9 of the Finance Bill) is likely to be available to them on the same expenditure which would otherwise have been dependent on the AIA for early relief.

3. Suggested amendment to Clause 15 to overcome the impact identified in 3.2 above

3.1. In order to prevent businesses being adversely impacted upon the return from a temporarily increased AIA limit to the permanent AIA limit, provision could be made to ensure that, for the year of change, AIA would be available on expenditure of up to the permanent limit regardless of when it was incurred within the year.

3.2. An illustrative wording to achieve that objective is shown below.

Amend Clause 15 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.”

3.3. The inclusion of this provision within schedule 13 of FA2019 would apply not only to the anticipated reversion to the permanent AIA limit with effect from 1 January 2022 but with appropriate updating to any subsequent reversion.

Association of Taxation Technicians

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Note:

The Association of Taxation Technicians

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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.

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