

Changes in Capital Allowances - take advantage before 1 April 2012

Taxation is a pretty dull subject at the best of times but something we all have to accept as part of our daily lives. In the current financial climate however, where every penny counts for UK businesses, nobody can seriously want to pay any more to HMRC than they absolutely have to?

Chris McClaverty a Regional Sales Manager of BASEA member Dash Commercial Finance explains why there is a window of opportunity for members and their customers to take advantage of forthcoming changes in Capital Allowances and to reduce the amount of Corporation Tax they will pay in the current business year.

Changes that will take effect on 1st April for companies will have a serious impact on the amount of the Annual Investment Allowance (AIA) available for capital expenditure such as Plant and Machinery. The Annual Investment Allowance is the amount that the Treasury allows businesses to invest in Capital Assets, which will then attract tax relief.

Since 1 April 2010 up to £100,000 of expenditure on qualifying assets purchased during the company's financial year has been allowed full tax relief annually, however from 1st April 2012 the amount available will reduce to £25,000.

At the same time the writing down allowance (WDA), which is used to calculate the amount of capital expenditure eligible for tax relief in excess of the AIA in the year of purchase and for subsequent years, is reducing from 20% to 18%.

For example, a company with a 31st March 2012 year end wishing to make a £110,000 purchase would have the ability to generate tax relief calculations, depending on the timing of the purchase:

If purchased on 28th March 2012: £100,000 (AIA) + £10,000 excess at WDA (20%) = £102,000. Based on the small companies' tax rate of 20%, the tax benefit is £20,400.

If the same purchase is made on 3rd April 2012 £25,000 (AIA) + £85,000 excess at WDA (18%) = £40,300. In this case and again based on the small companies tax rate of 20% the tax benefit reduces to £8,060.

For companies with a year end after the 31st March both the AIA and WDA will be pro-rated to reflect the period in which the equipment is purchased.

So what does all this mean? Well, given the reduction in amount of AIA and WDA available from 1 April 2012, it is worthwhile reviewing the timing of your anticipated future fixed asset expenditure. Although as each members circumstances are different and there are variations in respect of certain assets and geographic locations, care should be taken to seek professional advice from your financial advisers in advance of any significant purchase.

If you are currently considering making an asset acquisition then you should certainly consider doing it by 31st March. Dash will be very pleased to assist you with this - please either call them on 01293 804570 or speak to Chris direct on 07780 330722