ICAEW
REPRESENTATION 133/18

TEMPORARY INCREASE TO ANNUAL INVESTMENT ALLOWANCE

Issued 4 December 2018

This representation contains the text of a letter sent to Mel Stride, Financial Secretary to the Treasury, concerning para 2(3), Schedule 12, Finance Bill 2018-19. The legislation as drafted would disadvantage some small businesses which may inadvertently spend a modest, but disproportionate sum in the months immediately after the end of the temporary increase in the Annual Investment Allowance. ICAEW suggests it should be possible to opt out of the temporary increase and so benefit in full from the existing £200,000 relief across the accounting period as a whole.

This response of 4 December 2018 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

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23 November 2018

Rt Hon Mel Stride MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Mel

TEMPORARY INCREASE OF ANNUAL INVESTMENT ALLOWANCE

We welcome the Budget announcement that the Annual Investment Allowance will rise to £1,000,000 for expenditure in the period 1 January 2019 to 31 December 2020.

However, having reviewed the legislation in para 2(3), Schedule 12, Finance Bill 2018-19, we see a potential trap, particularly for smaller businesses which are unlikely to spend anywhere near £1,000,000 but may spend up to £200,000 in a year. The problem lies in the way the legislation splits the higher and lower allowance periods with a new period starting when the allowance reverts to £200,000 from 1 January 2021.

For example, a company with a year end of 31 March 2021, which spends £60,000 on 1 February 2021 and has no other capital expenditure in the year, will be given relief for only 90/365 x £200,000 = £49,315. This is even though the overall allowance for the period would be 275/365 x £1,000,000 + 90/365 x £200,000 = £802,740, and the actual expenditure is well below the £200,000 allowance pre and post the higher limit. Had the company incurred that level of expenditure evenly throughout the year, or indeed pre 1 January 2021 the full expenditure would have been relieved.

To summarise, the legislation requires the period after the temporary increase in the AIA to be looked at as a separate period for this purpose:

> 'But, so far as concerns expenditure incurred on or after 1 January 2021, the maximum allowance under section 51A of CAA 2001 for the second straddling period is the maximum allowance, calculated in accordance with sub-paragraph (2), for the period mentioned in paragraph (b) of that subparagraph.'
>
> Para 2(3)

A simple solution would be to allow a company to elect out of the temporary increase, instead retaining a maximum allowance of £200,000 throughout.

We hope that you will take on board our suggestion, and would welcome the opportunity to discuss this matter further with you in person.

Yours sincerely

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