

Use it or lose it!

By Derek Gemmell, a tax senior manager at Anderson Anderson & Brown LLP, Chartered Accountants

Currently a window of opportunity exists for incorporated or unincorporated trading businesses of any size, inclusive of rental businesses, to benefit from a £100,000 deduction against taxable profits.

This relief, known as the Annual Investment Allowance ('AIA'), provides an immediate 100% deduction against taxable profits where a business invests up to £100,000 in plant and machinery in an accounting period. Where a period is < 12 months the AIA is reduced proportionately.

Normally, the cost of an investment in plant and machinery is deductible against the taxable profits of the business over a period of between 8 and 20 years. However, this temporary increase in AIA's significantly accelerates the rate of relief against taxable profits and is available between April 2010 and 31 March 2012. After 31 March 2012, AIA's will be reduced from £100,000 to £25,000, significantly eroding the value of this allowance, therefore use or lose this valuable relief.

Given enhanced AIA's are available until 31 March 2012, some planning can allow more than one bite at this enhanced relief and this can merit the acceleration, or indeed implementation, of a capital investment programme in the right circumstances.

Example

A company with a 31 March year end is considering expenditure of £200,000 on plant and machinery in early 2012. After seeking advice the company decides to accelerate the purchase of plant and machinery in order that



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its £200,000 investment is incurred equally over the two years ended 31 March 2012.

As a consequence of £100,000 of capital expenditure being accelerated into the year ended 31 March 2011, AIA's of £100,000 will be available in each period. This will achieve an aggregate reduction in taxable profits of £200,000 over the two years equating to a tax saving of £56,000 at 28% for the company. Consequently, by accelerating its capital expenditure, the company has had two bites at the enhanced AIA's and the £200,000 plant and machinery investment will effectively cost the company £144,000.

It is also worthy of note that an AIA claim may make available a tax loss which can be utilised to reduce the taxable income of the business in the previous 12 months to achieve an immediate tax refund. Additionally, for a short time the loss carry back rules are extended to allow £50,000 of losses to be carried back against profits for an additional 2 years. Therefore, an optimally timed investment in plant and machinery can be part funded by HMRC through the cash refund generated from the utilisation of tax losses.

Plan ahead for electronic corporate returns

HMRC's modernisation of the tax process continues with companies being obliged to file their tax returns on-line in a prescribed ('iXBRL') format from 1 April 2011 and all tax payments must be made electronically from this date.

The rules on the content of the tax return remain unchanged. However, what has changed is the format of what you send and how you send it.

It is widely acknowledged preparing iXBRL formatted tax returns will increase compliance burdens, therefore companies may wish to submit paper returns pre 31 March 2011 where possible. ■

For help on either area, contact derek.gemmell@aab.co.uk

2
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