Annual Investment Allowance For Farmers

MHA

The Annual Investment Allowance (AIA) provides farmers with 100% tax relief on their agricultural equipment expenditure – enabling many farming businesses to reduce their taxable profits by the full amount of their annual capital investment.

Who Can Claim AIA?

The Annual Investment Allowance (AIA) may be claimed by farmers operating as sole traders, in partnerships and through companies.

Which Expenditure Qualifies for AIA?

To qualify for AIA, the expenditure must fall within the definition of 'plant and machinery' for capital allowances purposes. This would cover farming equipment such as tractors, combine harvesters and other agricultural machinery (as well as computers, office equipment, vans, lorries and all kinds of business machines).

Whilst cars are specifically excluded from AIA relief, vehicles considered unsuitable for use as a private vehicle are eligible. HMRC specifically states that 'double cab pick-ups with a payload of one tonne or more' can qualify for AIA - which could include, for example, a Land Rover Defender Utility 110.

How Much Expenditure Qualifies for AIA?

From 1 January 2013, the AIA threshold is £250,000 per annum, for the next two years.

When the AIA was originally introduced in 2008 it was limited to expenditure up to £50,000; this threshold was then doubled in the March 2010 Budget to £100,000. However, the annual limit was reduced to £25,000 with effect from April 2012.

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What Allowances are Available for Non-AIA Expenditure?

Non-AIA plant and machinery assets receive Writing Down Allowances (WDAs) at the rate of only 18% per annum, or 8% per annum for assets with a longer lifespan. The equivalent WDAs rates were 20%/ 10% prior to April 2012.

With an 18% rate of WDAs, it will typically take 8 years to relieve 80% of the capital expenditure – leaving 20% still unrelieved… in some cases even where the asset in question has been sold or scrapped within that time.

Are There Any Transitional Rules for Post - 1 January 2013 Expenditure?

Yes – and "the devil is in detail" as to how the transitional rules will operate around the AIA increase with effect from 1 January 2013.

Example 1 – AIA in 2011/12
Fred's spends £130,000 on farming equipment during his business year ended 5 April 2012. He is entitled to an AIA of £100,000 plus WDA on the balance of £30,000 at 20% = £6,000, that is, total allowances of £106,000 for his 2011/12 chargeable period. The unrelieved balance of £24,000 is carried forward in the pool to be written-down at 18% in 2012/13 and in subsequent years.

Example 2 – AIA in 2012/13
Alan and his son, Fred, have been farming a medium-sized holding for several generations, drawing the company's accounts up to 30 April each year.

They purchased a plough for £25,000 in October 2012, and planned to acquire a second-hand combine at around £130,000, a second-hand T608 Holland tractor at £40,000, and a new Land Rover Defender Utility 110 at £23,000 – all early in 2013, prior to the company's 30 April 2013 year end.

This planned expenditure totals £193,000 which, in addition to the £25,000 spent on the plough, takes the total proposed spending for 2012/13 to £218,000 – less than the new £250,000 threshold. However, the AIA transitional rules will prevent a claim on the full amount of expenditure.

The maximum AIA is a time-apportioned amount of £25,000 x 8/12 (1 May 2012 to 31 December 2012 = 8 months) = £16,667, plus £250,000 x 4/12 (1 January to 30 April 2013 = 4 Months) = £83,333, giving a total AIA for the year ended 30 April 2013 of £100,000.

The Plough will have its AIA of £25,000 leaving just £75,000 of AIA up to 30 April 2013, which would cover the purchase of the tractor (£40,000) and the Land Rover Defender (£23,000), but not the combine (£130,000).

Can Tax Planning Maximize My AIA claim?

Potentially, yes - the timing of expenditure, before and after threshold changes and accounting period ends, and perhaps even changing the business year end date, could be crucial to maximizing your AIA entitlement.

It is clear that great care and expert tax advice should be taken by farmers in deciding when to buy their farming equipment!

Contact

To discuss your AIA entitlement, or any other tax matter, please contact your local MHA member firm or email: info@mha-uk.co.uk.

www.mha-uk.co.uk/