



## Draft Finance Bill 2011 legislation – Capital allowances commentary

While the Chancellor had announced the ending of the Pre-Budget Report, 9 December 2010 saw the publication by HM Treasury and HM Revenue & Customs of draft legislation for Finance Bill 2011 and it contained certain measures which will affect capital allowances for businesses:

- The announcement in the Emergency Budget that the rates of writing-down allowances (WDAs) for expenditure on plant and machinery were confirmed. Draft legislation was published to effect the reduction from 20% to 18% for the main pool and from 10% to 8% for the special rate pool. The reduction in WDAs will take effect for chargeable periods ending on or after 1 April 2012 for businesses within the charge to corporation tax and on or after 6 April 2012 for businesses within the charge to income tax.

For businesses that have chargeable periods which span the date, hybrid rates will apply for the whole of the transitional period. There will be two hybrid rates, one for expenditure which currently qualifies for 20% WDAs and one for expenditure which qualifies for 10% WDAs. The hybrid rate is calculated based on the proportion of time a chargeable period falls before or after the change date, e.g. for a company with a chargeable period ending 31 December 2012 the hybrid rate would be 18.49% ( $91/366 \times 20\% + 275/366 \times 18\%$ ) for the main pool and 8.50% ( $91/366 \times 10\% + 275/366 \times 8\%$ ) for the special rate pool.

The Office of Budget Responsibility (OBR) has forecast that the effect of this measure will have a positive impact on Exchequer funds of £4,700m to 2014-15, though when taken into account alongside the phased reductions in the main corporation tax rate and changes to the small companies rate the OBR states the overall effect will be a negative one for the Exchequer and therefore still positive for businesses. However, the timing effect of these changes will increase the length of time it will take to claim the same level of allowances, as to achieve 90% of WDAs will now take 12 years for main pool expenditure, up from 11 years and 28 years for special rate pool expenditure, up from 22 years.

Once again, as the rate change does not become effective until April 2012, businesses should be looking, where possible, to accelerate their capital expenditure programmes to ensure maximum benefit is taken before the change date and also focus more on identifying expenditure which qualifies for Enhanced Capital Allowances at 100% relief, where the associated net present value has increased even further;



- Also confirmed was the announcement in the Emergency Budget of the reduction to the level of expenditure that benefits from the Annual Investment Allowance (AIA) from £100,000 to £25,000. Again the reduction in the AIA amount will take effect from 1 April 2012 for businesses within the charge to corporation tax and 6 April 2012 for businesses within the charge to income tax. Details of the transitional arrangements have now been published and provide that where a business has a chargeable period that spans the operative date for the reduction, the maximum allowance for that business' transitional chargeable period will comprise two parts:
  - The AIA entitlement based on the previous £100,000 level for the portion of a year falling before the operative date; and
  - The AIA entitlement based on the new £25,000 level for the portion of a year falling on or after the operative date.

For example, a company with a chargeable period from 1 January 2012 to 31 December 2012 would calculate its maximum AIA based on the following:

- The proportion of the year from 1 January 2012 to 31 March 2012, i.e.  $3/12 \times £100,000 = £25,000$ ; and
- The proportion of the year from 1 April 2012 to 31 December 2012, i.e.  $9/12 \times £25,000 = £18,750$

The maximum AIA for the period would then be £43,750, though the actual entitlement will always be governed by the date the expenditure was incurred and could therefore be lower than the maximum.

The draft legislation also deals with entitlement to the AIA in the situation of group or "related" businesses under common control in the transition period especially where there are different chargeable periods, e.g. if four companies in a group have different chargeable periods ending in financial year 2012-13, and had to share a single AIA their maximum individual amounts could be

<b>Company</b>	<b>Chargeable period end</b>	<b>Maximum time-apportioned AIA £</b>
A	30 April 2012	93,850
B	31 December 2012	43,750
C	31 March 2013	25,000
D	31 March 2013	25,000

The absolute maximum that could be shared is £93,850, however companies C and D cannot each claim £25,000 AIA and if between them companies C and D did claim



amounts totalling £25,000 the companies A and B's maximum claim would be reduced by £25,000. Also, if company B did claim the reduced maximum of £18,750 after claims by companies C and D, then company A could only claim the reduced balance of £50,100.

While it is expected that over 95% of businesses would be unaffected by the reduction, between 100,000 – 200,000 businesses will be affected and they will also be faced with higher compliance costs involved in identifying and claiming allowances over this level in the relevant capital allowance pools. Also, as can be seen above, where sharing of the AIA is needed there could also be further unwanted compliance costs to ensure the correct level of AIA is applied. Again, as with the reductions to the rates of WDAs, consideration should be given to see if capital expenditure can be brought forward to take advantage of the higher amount up to April 2012.

- Following the consultation process that ended on 22 October 2010, draft legislation was published for the new Furnished Holiday Lettings (FHL) regime that will come into effect from 1 April 2011 for companies and 6 April 2011 for individuals and partnerships. A more detailed look at these changes will be provided in a separate technical note.

If you would like further advice in any of the areas above please contact:

Stephen Dunham

Tel: +44(0)118 933 2588

Email: [stephendunham@btconnect.com](mailto:stephendunham@btconnect.com)

Website: [www.dunhamsconsulting.co.uk](http://www.dunhamsconsulting.co.uk)