

Osborne Books Update

Business Tax Workbook FA2020

Postponement of Change in
Annual Investment Allowance
(AIA)

Introduction

In November 2020, the government announced that the planned change to maximum Annual Investment Allowance due to take place on 1st January 2021 would be postponed. This means that the change from a maximum AIA of £1,000,000 to £200,000 that was due to affect periods straddling, or starting after, 1st January 2021 will not now happen.

The AAT has announced that the Finance Act 2020 examinations that will be held during 2021 will take account of this postponement. Therefore, the maximum annual AIA of £1,000,000 will apply to all periods starting on, or after, 1st January 2019. This will have an impact on capital allowances under both Corporation Tax and Income Tax.

Since the Osborne Books Business Tax (Finance Act 2020) Workbook, and other materials were created before this announcement, the following amendments now need to be made to the affected pages in our Workbook.

Revisions and deletions are shown in **RED** in the text that follows.

We apologise for any problems that this will cause for both tutors and students.

Please note that the revised pages from the AAT guidance material are produced here for reference. Fully updated guidance is available from the AAT website.

Task 3

CAP FOR THE 12 MONTHS TO 31/3/2021			
	Main pool	Special rate pool	Capital allowances
	£	£	£
WDV bf	105,000	17,000	
add			
Acquisitions with FYAs:			
Low emission car £25,000			
100% FYA £(25,000)			25,000
	0		
Acquisitions qualifying for AIA:			
Computer £890,000			
AIA claim* £(890,000)			890,000
Excess	0		
less			
Proceeds of Disposals	(5,000)		
	100,000	17,000	
WDA	(18,000)	(1,020)	19,020
WDV cf	82,000	15,980	
Total Capital Allowances			934,020

*AIA limit £1,000,000

1. Taxation tables for business tax – 2020/21

1.1. Capital allowances

Annual investment allowance

Prior to 1 January 2019	£200,000
From 1 January 2019 and 31 December 2020	£1,000,000
From 1 January 2021	£200,000

Plant and machinery writing down allowance

Assets other than motor cars	18%
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Motor cars

CO ₂ emissions up to 50 g/km	100%
CO ₂ emissions between 51 and 110 g/km	18%
CO ₂ emissions over 110 g/km -Prior to 1 April 2019/6 April 2019	8%
CO ₂ emissions over 110 g/km -From 1 April 2019/6 April 2019	6%

1.2. Capital gains

Annual exempt amount	£12,300
Basic rate	10%
Higher rate	20%
Business asset disposal relief rate	10%
Investors' relief rate	10%
Business asset disposal relief lifetime allowance	£1,000,000
Investors' relief lifetime allowance	£10,000,000

1.3. National Insurance rates

Class 2 contributions:	£3.05 per week
Small profits threshold	£6,475p.a.
Class 4 contributions:	
Main rate	9%
Additional rate	2%
Lower profits limit	£9,500
Upper profits limit	£50,000

6.2. Example 2 – relevant period is greater than 12 months

Vaughan changes his accounting date as follows:

Accounts	Year	Period
Year to 31 December 2019	2019/20	1/1/19 to 31/12/19
15 months to 31 March 2021	2020/21	1/1/20 to 31/3/21
Year to 31 March 2022	2021/22	1/4/21 to 31/3/22

Year of change – 2020/21

Relevant period – 15 months to 31 March 2021

Basis period for 20/21 – 15 months to 31 March 2021

7. Capital allowances on plant and machinery

7.1. Layout of capital allowances on plant and machinery computation

(see taxation tables for rates)

	First Year Allowance (FYA)	Annual Investment Allowance (AIA)	General pool	Special rate pool	Short Life Asset	Total allowances
	£	£	£	£	£	£
WDV b/f			X	X	X	
Additions	X	X	X			
Disposals			(X)		(X)	
	X	X	X	X	X	
Balancing allowance/balancing charge (BA/BC)					X/(X)	X/(X)
					<u>Nil</u>	
AIA/FYA	(X)	(X)				X
Writing down allowance@ 18% pa			(X)			X
Writing down allowance@ X% pa				(X)		X
WDV c/f	Nil	Nil	X	X		
	===	===	===	===		
Total allowances						<u>X</u> ===

- Plant – defined by 'function/setting' distinction and case law.
- AIA – 100% allowance for expenditure (other than cars) in 12-month period (pro rata). Expenditure in excess of AIA qualifies for writing down allowance (WDA). If the accounting period straddles 1 January 2019 or 1 January 2021, the AIA must be pro-rated.