



MAGEE GAMMON
CHARTERED ACCOUNTANTS

The Bottom Line

TOPICAL INFORMATION FROM MAGEE GAMMON

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Changes to the Annual Investment Allowance: getting the timing right

The Annual Investment Allowance (AIA) is due to fall from £500,000 to £200,000 with effect from 1 January 2016. Transitional rules will have an impact on the amount businesses can claim, so it is important to plan ahead if you want to receive the maximum tax benefit.

What is the AIA?

The AIA enables businesses to deduct the full cost of plant and machinery (excluding cars) from their profits in the year of purchase. It applies to businesses of any size and most business structures, but there are provisions to prevent multiple claiming. Businesses are able to allocate their AIA in any way they wish; so it is quite acceptable for them to set their allowance against expenditure qualifying for a lower rate of allowances (such as long life assets or integral features).

How much can I claim?

The AIA was temporarily increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses, until 31 December 2015. It had been due to fall to £25,000 from 1 January 2016. However, in his Summer Budget on 8 July, the Chancellor announced that the AIA will instead be set at £200,000.

Accounting periods spanning the change

Where the accounting period spans 31 December 2015, the maximum amount of AIA entitlement is calculated on a pro-rata basis.

For example, if Brown & Co's accounting period begins on 1 April 2015 and ends on 31 March 2016, approximately three

quarters of that period would fall before the date of the change (1 January 2016) and approximately one quarter would fall after that date. Brown & Co will be subject to a transitional AIA maximum, calculated as follows:

Dates	Fraction of period	Allowance for full year	Transitional allowance
01/04/15 – 31/12/15	9/12	£500,000	£375,000
01/01/16 – 31/03/16	3/12	£200,000	£50,000
	Transitional AIA maximum		£425,000

Timing expenditure for maximum relief

As demonstrated in the above example, the maximum AIA for expenditure incurred before 1 January 2016 is £425,000. However, where expenditure is incurred on or after 1 January to 31 March 2016, the maximum amount of relief will only be £50,000. Therefore, if you want to gain the maximum benefit of the £500,000 AIA, it may be advisable to purchase plant and machinery before 31 December 2015. If this is not an option, you might want to delay expenditure until after 31 March 2016, when the AIA will be set at £200,000. Note that tax relief will have been deferred for a full year.

Careful consideration should be given to the timing of any expenditure to ensure you are able to maximise the available relief. Please speak to us for further advice.

MG NEWS

Staff Matters



We would like to welcome Dan Edwards who has joined us as a Senior Manager. Dan specialises in accounting and tax for companies, partnerships and sole traders and Solicitors Accounts Rules examinations.



Welcome also goes to Fern Murphy who has recently joined the team as a trainee accountant and is studying for AAT qualification.

Principals: Jon Gammon, Antony Tutt, Mark Britland, Abhi Jain, Roland Parry, Andy Childs

Managers: David Brookes, Julie Devine, Dan Edwards, Linda Hayward, Peter Horton, Barry Spokes

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