

# FINANCE ACT 2014

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## EXPLANATORY NOTES

### INTRODUCTION

#### *Section 10 and Schedule 2: Temporary Increase in Annual Investment Allowance*

#### Details of the Schedule

##### Part 1

5. Paragraph 1(1) explains that the paragraph applies to a chargeable period that begins before the start date of 1 (or 6) April 2014 given by subsection (3) of the section and ends on or after that date. Such a period is referred to as "the first straddling period".
6. Paragraph 1(2) provides that the maximum allowance for such a period will be the sum of each maximum allowance that would be found if the actual chargeable period were split into separate chargeable periods by reference to 1 January 2013 and the start date.

##### *The first period*

Because some businesses may have a chargeable period that began before 1 January 2013, and so may be affected by the changes enacted by section 7 of Finance Act 2013, the first period is so much of the actual chargeable period as falls before 1 January 2013. The legislation does not require that there has to be such a period, but where the chargeable period starts before 1 January 2013 that period must be separately considered.

##### *The second period*

The second period is so much of the actual chargeable period as falls on or after 1 January 2013, but before 1 (or 6) April 2014.

##### *The third or last period*

The third period is so much of the actual chargeable period as falls on or after 1 (or 6) April 2014.

7. So, where a business has a chargeable period that straddles 1 (or 6) April 2014, the maximum allowance for that period is the sum of:
  - a. (If appropriate) the maximum AIA entitlement based on the £25,000 annual cap that applied before 1 January 2013, for the portion of the period falling before that date; and
  - b. the maximum AIA entitlement based on the £250,000 annual cap that applied for the portion of the period falling on or after 1 January 2013, but before 1 (or 6) April 2014; and
  - c. the maximum AIA entitlement based on the new temporary £500,000 annual cap for the portion of a year falling on or after 1 (or 6) April 2014.
8. Paragraph 1(3) provides that this calculation of the maximum AIA entitlement for the whole of "the first straddling period" is subject to paragraphs 2 and 3, which contain some additional rules about the maximum AIA entitlement for expenditure actually

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incurred in the period prior to 1 January 2013 and for the period ending on 31 March (or 5 April) 2014. Paragraph 2 gives the additional rules for first straddling periods beginning before 1 January 2013, and paragraph 3 gives the rules for first straddling periods beginning on or after that date.

9. Paragraph 2(1) explains that the paragraph applies where the first straddling period begins before the relevant date of 1 January 2013.

For example, a business with a chargeable period of 18 months from 1 December 2012 to 31 May 2014 would calculate its maximum AIA entitlement based on:

- a. the proportion of the period from 1 December 2012 to 31 December 2012, that is,  
 $1/12 \times \text{£}25,000 = \text{£}2,083$
- b. the proportion of the period from 1 January 2013 to 5 April 2014, that is,  
 $15/12 \times \text{£}250,000 = \text{£}312,500$ ; and
- c. the proportion of the period from 6 April 2014 to 31 May 2014, that is,  
 $2/12 \times \text{£}500,000 = \text{£}83,333$ .

So, the company's maximum AIA for this first straddling period would be the total of (a) + (b) + (c) =  $\text{£}2,083 + \text{£}312,500 + \text{£}83,333 = \text{£}397,917$ .

10. Paragraph 2(2) effectively provides that in the part of the first straddling period falling before 1 January 2013, the maximum allowance for expenditure actually incurred in this period, is the amount that would have been the maximum allowance for the whole of the first straddling period, if neither the temporary increase in the AIA to  $\text{£}250,000$  nor the temporary increase in the AIA to  $\text{£}500,000$  had been made. So, for expenditure incurred in period (a) of the example in paragraph 9 above, the maximum allowance would be

$1/12 \times \text{£}25,000$	=	$\text{£}2,083,$
$15/12 \times \text{£}25,000$	=	$\text{£}31,250$ and
$2/12 \times \text{£}25,000$	=	$\text{£}4,167$
Total		$\text{£}37,500$

11. Paragraph 2(3) provides that, in relation to expenditure actually incurred in the part of the first straddling period before the start date of 1 (or 6) April 2014, the maximum allowance for the whole of the first straddling period is what would have been the maximum AIA entitlement for the whole of the first straddling period if there had been no increase in the AIA limit from  $\text{£}250,000$  to  $\text{£}500,000$  and paragraphs 1 of Schedule 1 to Finance Act 2013 applied to that period. In other words, returning to the example at paragraph 9 above, in relation to expenditure incurred in period (a) + (b), a maximum allowance would be

$1/12 \times \text{£}25,000$	=	$\text{£}2,083,$
$15/12 \times \text{£}250,000$	=	$\text{£}312,500$ and
$2/12 \times \text{£}250,000$	=	$\text{£}41,667$
Total		$\text{£}356,250$

12. Paragraph 3(1) gives the rule about the maximum allowance for expenditure incurred in a first straddling period which begins on or after 1 January 2013. For example, a

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company with such a straddling period might have a chargeable period that ran from 1 January 2014 to 31 December 2014. It would calculate its maximum AIA entitlement based on:

- a. the portion of the period from 1 January 2014 to 31 March 2014, that is,  
 $3/12 \times \pounds 250,000 = \pounds 62,500$ ; and
- b. the portion of the period from 1 April 2014 to 31 December 2014, that is,  
 $9/12 \times \pounds 500,000 = \pounds 375,000$ .

The company's maximum AIA for its first straddling period would therefore be the total of (a) + (b) =  $\pounds 62,500 + \pounds 375,000 = \pounds 437,500$ .

13. Paragraph 3(2) provides that so far as expenditure is incurred in the part of the first straddling period falling before the start date of 1 (or 6) April 2014, the maximum allowance is to be calculated as if the increase in the maximum AIA to  $\pounds 500,000$  had not been made. In other words, in the example given at paragraph 12, for expenditure incurred before 1 (or 6) April 2014, only expenditure up to the maximum amount of the  $\pounds 250,000$  cap can be covered.
14. Paragraph 4 provides the transitional rules for chargeable periods that straddle 1 January 2016, when the maximum amount of the AIA is to return to its previous maximum of  $\pounds 25,000$ . This rule is similar in its operation to paragraph 4 of Schedule 1 of Finance Act 2013 which was to have applied when the AIA was due to be reduced from  $\pounds 250,000$  to  $\pounds 25,000$ .
15. Paragraph 4(1) explains that the paragraph applies to a chargeable period that begins before 1 January 2016 and ends on or after that date. Such a period is referred to as "the second straddling period".
16. Paragraph 4(2) provides that the maximum allowance for the second straddling period is the sum of each maximum allowance that would be found if:
  - a. the period beginning with the first day of the chargeable period and ending with the day before 1 January 2016, and
  - b. the period beginning with 1 January 2016 and ending with the last day of the chargeable period,were treated as separate chargeable periods.

So a company with a financial year chargeable period, from 1 April 2015 to 31 March 2016, would calculate its maximum AIA entitlement for its 'second straddling period' based on:

- a. the proportion of the period from 1 April 2015 to 31 December 2015, that is,  
 $9/12 \times \pounds 500,000 = \pounds 375,000$ , and,
- b. the portion of the period from 1 January 2016 to 31 March 2016, that is,  
 $3/12 \times \pounds 25,000 = \pounds 6,250$ .

The company's maximum AIA for this straddling period would, therefore, be the sum of (a) + (b) =  $\pounds 381,250$ .

17. Paragraph 4(3) provides that, for expenditure incurred in the part of the chargeable period falling on or after 1 January 2016, the maximum allowance is the maximum calculated in accordance with (b) in paragraph 16 above, that is,  $\pounds 6,250$  in our example. This rule does not affect the business's maximum AIA entitlement for the second straddling period as a whole (which, in the example given in paragraph 16 above, is

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£381,250), simply the amount of expenditure incurred on or after 1 January 2016 that may be covered by AIA.

18. For example, if the company in our example at paragraph 16 above, incurred no qualifying expenditure in the period 1 April 2015 to 31 December 2015 and then spent, say, £30,000 in the period 1 January 2016 to 31 March 2016, the maximum AIA available to that company for expenditure in that particular part period would be limited to £6,250.
19. Paragraph 5 provides the rules explaining the operation of the AIA where businesses have to share a single AIA (where restrictions apply). This rule is similar in its operational effect to paragraph 5 of Schedule 1 of Finance Act 2013
20. Paragraph 5(1) provides that paragraphs 1 to 4 of the Schedule also apply for the purposes of determining the maximum allowance in relation to businesses that are required by CAA to share a single AIA, in a case where one or more of those businesses has a chargeable period that straddles either the start of 1 (or 6) April 2014 or end date of the temporary increase, being 31 December 2015. This provision is stated to be subject to sub-paragraphs (2) and (3).
21. Paragraphs 5(2) provides that, for the purposes of determining the maximum allowance in cases where businesses must share a single AIA, and one or more of the affected businesses has a straddling chargeable period, only chargeable periods of one year or less may be taken into account, and, if there is more than one such period, only that period which gives rise to the maximum allowance.
22. For example, four companies in a company group with different chargeable periods of 12 months ending in the financial year 2015-2016 would be required to share a single AIA. In the following example, their individual maximum amounts are as shown in the third column of the table. However, their overall maximum, single AIA (to be shared amongst the group) would be the greatest maximum allowance, in this example, £500,000. So if, say, £500,000 were allocated to Company A, nothing further could be allocated to other companies in the group in this particular year. Alternatively, if, say, £200,000 were allocated to Company C, and the balance of the greatest maximum was to be allocated to Company D, no more than (£500,000 - £200,000 =) £300,000 could be allocated to D in this particular year.

**EXAMPLE: A RELATED GROUP OF COMPANIES WITH CHARGEABLE PERIODS ENDING IN THE TRANSITIONAL YEAR: 1.04.15 TO 31.03.16**

<i>Company</i>	<i>Chargeable period ending on</i>	<i>Maximum time-apportioned AIA</i>
A	31 December 2015	£500,000
B	31 January 2016	£460,417
C	29 February 2016	£420,833
D	31 March 2016	£381,250

23. Paragraph 5(3) contains a special rule which relates only to businesses carrying on a trade, profession or vocation within the charge to income tax, as these businesses can have a chargeable period of up to (but no more than) 18 months. Limiting a business's chargeable period to a year ending at the same time as it actually ends, stops an increased AIA being shared with related businesses.
24. Paragraph 5(4) provides that where an AIA has to be shared the special rules in relation to unincorporated businesses with chargeable periods longer than 12 months are not affected by the transitional provisions in paragraph 5. Paragraph 5(4) preserves the right of the business with the long chargeable period to see if it is entitled to look back to

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an earlier chargeable period to see if there is potentially an unused AIA entitlement in that earlier chargeable period.