March 2012

Business - Capital Allowances   Legal - facing up to a drought

ANNUAL INVESTMENT ALLOWANCE

Most businesses are able to claim an Annual Investment Allowance (AIA) on plant and machinery. This allowance is to be reduced from the maximum AIA of £100,000 to £25,000 for expenditure incurred on or after 6 April 2012 (1 April 2012 for companies).

The accounting periods of many businesses will span the date of change and a pro rata calculation of the maximum AIA entitlement will be required.

Where a business has an accounting period that spans either 1^{st} or 6^{th} April 2012 the maximum allowance for that period is the sum of:

- The maximum AIA entitlement based on the £100,000 maximum for the part of the year before 1st or 6th of April 2012; and
- The maximum entitlement based on the new £25,000 maximum for the part of the year after 1st or 6^{th} April 2012.

There is a restriction in place so that for capital expenditure post 1^{st} or 6^{th} April 2012 the maximum entitlement is given only by reference to the second period. Whilst this won't affect the business's maximum AIA for the year as a whole, it will affect the amount of capital expenditure qualifying for relief in the second period.

Example 1
For a company with a calendar year accounting period, the maximum AIA for the year ending 31^{st} December 2012 is £43,750, being 3/12 of £100,000 + 9/12 of £25,000.

Example 2
A company makes up its accounts to 30 June annually. For the 3 months to 30 June 2012 the limit on capital expenditure qualifying for the AIA is £6,250.

For the year to 30 June 2012 the limit is calculated:
July 2011 - March 2012 9/12 of £100,000 = £75,000.
April - June 2012 3/12 of £25,000 = £6,250
Total = £81,250

If, in the nine months to March 2012 the company had already spent £60,000 on purchases of plant and machinery, £60,000 would qualify for AIA. However, in the three months to June further purchases of up to a maximum of £6,250 would qualify for AIA.

Example 3
Using the example above: If the company spent a further £20,000 on capital expenditure in the three month period to June 2012 only £6,250 would qualify for AIA. The same restriction does not apply to expenditure in the first period.

As can be seen from the above examples planning the timing of purchases of significant items of plant is essential to ensure that the maximum available AIA can be secured.

100% FIRST YEAR ALLOWANCES

Environmentally Friendly Equipment
A 100% First year Allowance is still available to all businesses on the purchase of new (not second hand) environmentally friendly equipment under the Enhanced Capital Allowance Energy Scheme (ECA) and the ECA water scheme which is managed by DEFRA and HMRC in partnership with AEA Technology.

The scheme offers a 100% first year allowance for investments in certain energy saving plant and machinery. 100% of qualifying expenditure can be written off against that year's taxable profit.

Eligible equipment is published in the Energy Technology List (ETL) and the Water Technology List (WTL):

Technologies Covered by the ETL

- air-to-air energy recovery
- automatic monitoring and targeting
- boiler equipment
- combined heat and power
- compressed air equipment
- heat pumps for space heating
- heating ventilation and air conditioning (HVAC) equipment
- lighting
- motors and drives
- pipework insulation
- radiant and warm air heaters
- refrigeration equipment
- solar thermal systems
- uninterruptible power supplies

Technologies Covered by the WTL

- cleaning in place equipment
- efficient showers
- efficient taps
- efficient toilets
- efficient washing machines
- flow controllers
- leakage detection equipment
- meters and monitoring equipment
- rainwater harvesting equipment
- small-scale slurry and sludge dewatering equipment
- vehicle-wash water reclaim units
- water efficient industrial cleaning equipment
- water management equipment for mechanical seals
- water reuse systems

A 100% first year allowance is also available for capital expenditure on new cars with CO_2 emissions up to 110 g/km, and on new electric vans.

WRITING DOWN ALLOWANCES

From April 2012 the normal rate of 20% will be reduced to 18% and the lower rate of 10%, which applies to integral features and long life assets, will reduce to 8%. It will be necessary to calculate hybrid rates where the accounting period straddles 1st or 6th April.

Should you have any queries regarding any of the above please contact your accountant for further advice.

About the author

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FACING UP TO A DROUGHT – BALANCING WATER SHORTAGES WITH FOOD PRODUCTION NEEDS

After two dry winters in a row, two of the country's largest arable regions have been officially declared in drought – East Anglia and the South East - and seven water companies announced a hosepipe ban with effect from 5 April. Unless there is significant rainfall in the next couple of months it is likely that the Midlands and the South West will also be declared in drought and most regions are experiencing increased Soil Moisture Deficits, with East Anglia registering the highest with 56mm and the Midlands and South East with 22mm and 26mm respectively, resulting in poor conditions for spring-grown crops.

Since the implementation of the Water Act 2003, the regulatory framework for the use of water by agriculture (among other users) has been more flexible, acknowledging that both regulators, users and water companies need to work together to manage water resources as efficiently as possible. For farmers, water shortages have an immediate effect by affecting crop production and impacting on livestock husbandry. In recognition that any reduction in food outputs will adversely affect the economy at large by forcing up food prices, Defra, the EA, the water companies and the NFU are meeting regularly to review the situation and put in place measures that will help farmers to manage their water requirements as well as continuing to protect the environment. A number of initiatives such as the recent Defra Drought Meeting (February 2012), the EA regulatory position statement, and the setting up of a National Drought Management Team are all evidence of a more joined up approach to try and ensure that agriculture has access to enough water during what is likely to be a very dry few months.

There will almost certainly be restrictions on water abstraction and spray irrigation over the coming months, a fact recognised by the EA's regulatory position statement which introduces a number of measures to help farmers fill irrigation reservoirs:

- Farmers will be able to take advantage of high flows in the summer without additional charge providing existing licensed quantities are not exceeded. There will be certain requirements however such as installing flow measurement equipment;

- Farmers can apply to vary their abstraction licence to increase pump rates in order to fill a reservoir faster. These increased pumping rates are time-limited in line with the EAs CAMS;

- There may be scope for relaxing the hands off flow conditions (HOFs) if protected abstractors are not using their licence and confirms that fact in writing to the EA. Any agreement to relax a HOF temporarily will not affect an existing abstraction licence or reduce the charges for the licence of the protected abstractor;

- Extending the abstraction season for holders of old licences that stop at the end of February. If flows have recovered sufficiently in April, farmers can apply to vary their licence if they want to continue to abstract after the 31 March cut-off date.

Although the EA has announced its intention to work with agriculture, farmers need to remember the penalties for not having, or for transgressing, the correct licence. Any environmental damage can result in a revocation of an abstraction licence – and without compensation from 15 July 2012. Enforcement notices can be issued for unlawful abstraction or for the contravention of licence terms and conditions with a maximum fine of £20,000 and / or prosecution.

The majority of farmers are likely to have a hard time this summer. It is essential that abstraction licences are correct and up to date and, if taking advantage of some of the relaxation of rules around summer abstraction, farmers must stick to the letter of the law. Failure to do so may come at a significant cost.

About the author

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About UK200Agricultural Group

UK200Agricultural Group, a national grouping of independent chartered accountants and lawyers who understands the challenges facing farming and rural businesses, widely acknowledged as an authority within the UK rural economy and International Markets. Members help with strategic business planning, accounting, profitable uses of land, investment and diversification, inheritance, complex tax planning and legal issues. Farmers, landowners and rural business can expect trustworthy business support in this rapidly changing market, including expert help in sourcing grant aid funding for new enterprises jimy@uk200group.co.uk www.uk200roup.co.uk