

Dentistry Business

Annual investment allowance – friend or foe?

Performance Finance's Stuart Burn takes a look at the truth about investment allowances



The new annual Investment Allowance (AIA) is upon us, and at first glance looks like a welcome boost to anyone wishing to invest in surgery equipment or IT for his or her practice this year.

The basics are from 5 April 2008 or 1 April 2008 for limited companies, HMRC (the tax man) will allow 100% tax allowance for

capital expenditure of up to £50,000. This would mean an increase in your tax saving from £10,000 to £20,000 based on a 40% taxpayer.

Fantastic, wonderful, thank you very much HMRC... ah, but wait... as ever, the devil is in the detail.

Firstly, the fiscal year April 2008 to April 2009 is a 'transitional year'. This means that your business will only qualify for a proportion of this allowance depending on its financial year-end.

For example, if you make your purchases in May 2008 and have a year-end of 31 July 2008, you then only qualify for 33.33% of the £50,000 allowance i.e. £16,666. This is because most of your accounting year (two thirds) was in the previous fiscal period and therefore you only qualify for one third of the allowance.

By the same principle, making the same purchase in

June 2008 but with a year-end of 31 December 2008 you would qualify for 75% of the AIA or £37,500.

For those with a year end of 30 April 2008, then the same purchase in June is great, as you qualify for the full £50,000 AIA as the whole financial year is within the new regulations.

Therefore, once you've passed your accounting year-end during this 'transitional year' (April 2008 to April 2009) you then qualify for the £50,000 AIA year on year.

The truth?

It would then seem prudent to time your investment wisely according to your own accounting year-end and the level of investment you are making. Maybe even splitting your capital expenditure into two accounting periods, to maximise your allowances.

However, speak to a

finance expert, as they may be able to help accelerate tax relief without the need to split or delay your plans.

Secondly, as with many 'giveaways', there's normally a 'clawback' somewhere and in this case it's the capital expenditure over and above the £50,000 (or your particular proportion this year). For that which is over the qualifying AIA, the writing down allowance (WDA) has been reduced from 25% to 20% on a reducing balance basis.

Again there is a proportional adjustment for your particular year-end during this transitional year.

On the face of it, this doesn't look too bad – 5% doesn't seem that much of a difference. Yet, before the changes, you received a 50% first-year allowance on all expenditure. This means for any capital purchases over your qualifying AIA, the allowances have dropped

from 50% to 20% and this is where the 'clawback' begins to bite. For many practitioners normal run-of-the-mill expenditure will benefit from the new AIA, particularly once this transitional year is over.

However, for larger projects, additional surgeries and practice purchases, making the most of the new legislation is a little more complex.

New starts are also of interest as the initial expendi-

ture tends to be high, and yet the first year profits are usually low. This will often lead to large amounts of tax relief either utilised at a lower tax rate or not utilised at all.

Maximising your tax relief is what a good financier is all about and I suggest speaking to an expert. They can help accelerate or decelerate your tax relief depending on what is best for you and your business. ■



Stuart Burn works for Performance Finance and can be reached at 01536 330359.

We are experts in finance, so you don't have to be.

Performance Finance can offer unbeatable value for all your finance needs.

We simply have access to more lenders and more funds than any other dental finance specialist. Our systems are designed to provide you with great customer service, whilst our team of dental finance experts can offer straightforward advice on the best options available.

- 1 If you are new to finance then allow us to guide you to the right solution for your needs.
- 2 If you normally use your bank then let us demonstrate the superb tax savings that can be achieved by financing more efficiently.
- 3 If you use a regular finance company then call us to see how competitive we are and experience the difference in our quality service.

Whatever your circumstances, we can provide the best finance solutions coupled with an unparalleled level of customer service.

So give us a call today on **01536 330359**

Performance Finance

Tel: **01536 330359** Fax: **01536 330793**

Email: **info@performancefinance.co.uk**

Consultants: **David Naden**
Stuart Burn

Chris Barlow
Peter Ward

James Keetch
Pete George

