



HMRC helps UK businesses invest in equipment by increasing the Annual Investment Allowance to £1m

### Why it's easier to plan spending this year

UK governments have always allowed businesses to reduce their tax bills by investing in capital equipment.

As long as businesses make a profit, they pay either income tax (unincorporated businesses), or corporation tax (limited companies). Tax liability is calculated as a percentage of pre-tax profits.

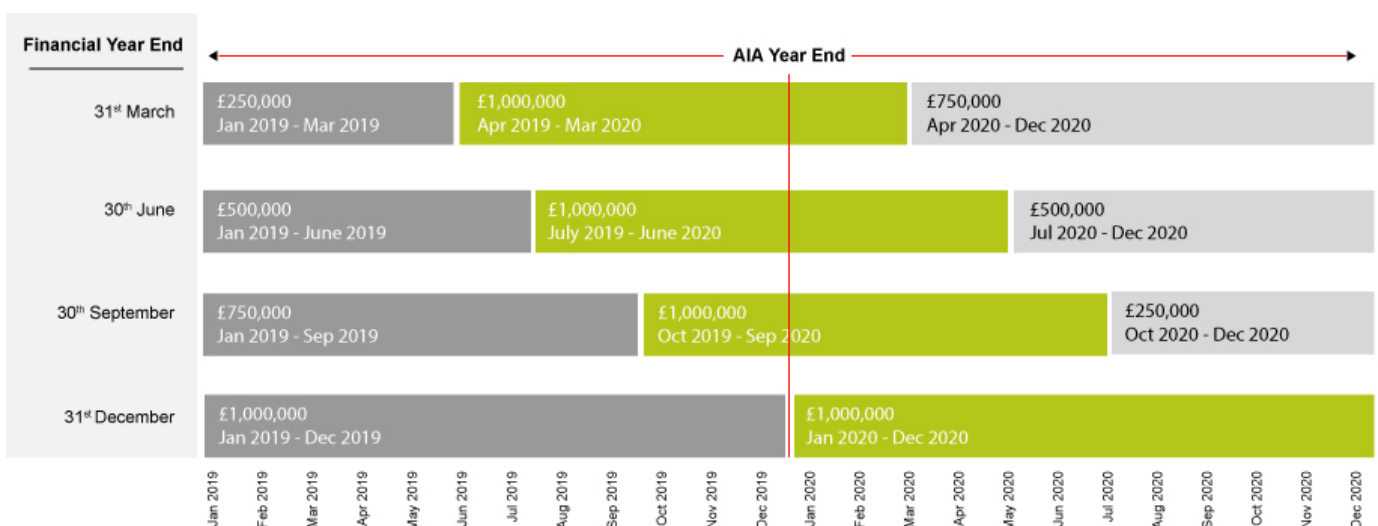
However, buying capital equipment can reduce your tax bill. Because it's viewed as an operating expense, HMRC deducts the cost of qualifying equipment from taxable profits.

### Capital expenditure: the time is now

The Annual Investment Allowance (AIA) of £1m has been set for 2019 and 2020. This is the highest allowance set by the government since being introduced in 2008.

This means you can buy qualifying business assets up to £1m, and offset the whole cost against tax for 2019 and 2020 calendar year.

With the changes in allowance you will be required to calculate your entitlement for the fiscal year end. Use the chart below to help.\*



\*Where your accounting period overlaps you will need to take into account AIA set for that time period.

As an existing customer, did you know we can also finance non-CLAAS equipment?

Given our unique position in the finance market, we pride ourselves in being able to offer competitive finance to suit specific needs. We're open to funding other makes of agricultural machinery and equipment, vehicles, grain dryers, milking equipment and more.

Please contact your local CLAAS Regional Finance Manager for a quotation.

## AIA: rules to consider before you invest

To maximise tax relief on any capital investment, make sure you're aware of the rules beforehand.

Here are a few important considerations for AIA:

- For equipment to qualify, it's not enough to buy it. It must be in use by the end of the year in which you claim the allowance – and that includes assets bought on hire purchase. HMRC employ agents who know the difference between a cultivator and a combine, and can keep track of seasonal purchases.
- You must provide a purchase invoice to HMRC for any capital equipment, no matter how it is acquired. The date must fall within the period in which you're claiming the allowance.

- If you're an unincorporated partnership, you can't claim AIA if one of the partners is a company or another partnership.
- A group of companies shares one AIA. The same applies where two or more businesses are controlled by the same person.

## When you can claim

You can only claim AIA in the period you bought the asset.

The date you bought the asset is:

- when you signed the contract if payment is due within 4 months
- when payment's due, if it's due more than 4 months later.

Let's explore the ways to fund capital equipment:

**1** Credit agreements  
(Hire Purchase)

**2** Hire agreements  
(Rental or Operating Lease)

**3** Commercial loans

## 1 Credit agreements (Hire Purchase)

Debt finance is a common way of buying capital equipment. When the agreement expires, ownership is transferred to the hirer.

This type of credit agreement is called lease purchase or hire purchase, and counts towards your AIA (or writing-down

allowance) in the same way as buying outright.

Any interest you pay as part of the agreement counts as a business expense, so reduces your tax liability even further.

## 2 Hire agreements (Rental or Operating Lease)

Hire agreements involve a business simply hiring equipment for a period of time, and include Contract Hire, Operating Leases, Leasing and Rental agreements.

Once the agreement ends, you return the equipment. Rental

payments count as a business expense, so they reduce pre-tax profits and the amount of tax you pay. HMRC works this out annually, based on the length of the lease.

## 3 Commercial loans

Commercial Loan is a debt-based funding arrangement available for farming and core business assets over a flexible long-term payment plan of up to 5 years.

The loan is unsecured and you will have full ownership of any assets purchased using the fund.

The assets purchased could count towards your AIA, this should be discussed with your accountant or qualified financial advisor.

CLAAS Finance will fund other purchases that are not suitable for asset finance but are related to a farm business.

For more information please contact:

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