



## ▶ Accounting & Tax

### Finance Lease

With a finance lease, the asset is capitalised in the balance sheet with an equal liability created. The repayment is split between capital & interest (this split is created using your normal method for all other hire purchase or similar agreements) with the capital amount reducing the liability and the interest element going in the profit & loss account as a cost. Then depreciation is applied to the asset (due to this being a finance lease HM Revenue & Customs allows this as your taxable deduction and does not need adding back as you would with normal depreciation) on the basis of the lower of the life of the asset or the term of the lease. This amount goes in the profit & loss account as a cost.

The combination of the above two items effectively allows you to claim 100% of the repayments against taxable income. At the end of the year in the filed accounts, a note is added under the fixed asset schedule itemising the value of the assets held under a finance lease and the depreciation applied to these assets. The liability is split between current (due within one year) and long term (due in more than one year).

### Operating Lease

With an operating lease, each repayment goes into the profit & loss account as a cost. Operating leases have a residual value built into them and do have to meet official accounting rules. Please Note: All the information is to be taken as a guide only, your accountants/auditors will provide you with exact treatment based on your individual organisation.

### How Bluestone can help?

Our team of finance experts has over 27 years of experience helping organisations secure the finance they need to support their organisation. We'll work closely and collaborate with you to understand your specific financing requirements and provide you with a range of bespoke finance solutions that are tailored to your unique needs. With Bluestone as your finance partner, you can trust that we'll support you throughout the entire process, from application to approval and beyond.

### Hire Purchase/Lease Purchase/Loan

With hire purchase, lease purchase and loans, the asset is capitalised in the balance sheet with an equal liability created. The repayment is then split between capital & interest (the split is created using your normal method for all other hire purchase or similar agreements) with the capital amount reducing the liability and the interest element going in the profit & loss account as a cost.

Then depreciation is applied to the asset using your normal depreciation rules for this type of asset. When calculating your taxable income you will need to add back the above depreciation and effectively replace it with the Capital Allowance (This figure is the tax saving associated with owning the asset, the government allows each business to claim back against taxable profits an amount known as capital allowances, these capital allowances are calculated on a reducing balance and can vary due to the asset from 6% to 18%.

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## Annual Investment Allowance (AIA)

In some circumstances, organisations may also be able to claim an Annual Investment Allowance (AIA). If your business buys a piece of equipment that qualifies for the AIA, you can deduct 100% of the cost of that asset (up to £1,000,000) from your business's profit before you work out how much tax is due on that profit. If your business is registered for VAT, you claim the Annual investment allowance on the total cost of the asset less any VAT you can reclaim on that asset. If your business is not registered for VAT, you claim the AIA on the total cost of the asset.

If you sell the item after claiming AIA you may need to pay tax. AIA is available for companies, individuals and partnerships, where all the members are individuals.

At the end of the year in the filed accounts the liability is split between current (due within one year) and long term (due in more than one year). In addition to the AIA, certain assets will qualify for 100% first year allowances, which means you can deduct the full cost from your profits before tax. However, you cannot claim 100% first year allowances and AIA for the same expenditure.

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## Are all assets eligible for AIA?

No, they're not. You can claim AIA on most plant and machinery up to the AIA amount, but you cannot claim AIA on:

- Business cars
- Items given to you or your business
- Items you owned for another reason before you started using them in your business

If you buy something under a Hire Purchase contract you can claim for the payments, you have not made yet when you start using the item. You cannot claim on the interest payments.

AIA is not available for partnerships where one of the partners is a company or another partnership. If you're a sole trader or a partner and you have more than one business or trade, each business usually gets an AIA. You only get one AIA if the businesses are both:

- Controlled by the same person
- In the same premises or have similar activities.

If 2 or more limited companies are controlled by the same person they only get one AIA between them. They can choose how to share the AIA.