

# Now That's A Relief

**Aubrey Calderwood**, director of tax specialists Capitus, looks at some of the tax incentives available to businesses looking to invest in the environmental and renewables sectors

**W**hen you are selling your services or products to prospective clients, how often does the term “tax relief” enter your thoughts? If the answer is “never” or “rarely”, you are not alone. The Government offers a wide range of tax incentives aimed at encouraging investment in the environmental and renewables sectors. However, even though these incentives exist, very few companies – both on the product or service supply side or the end user side – exploit them to their full advantage.

There are a myriad of such tax incentives available. We have Land Remediation Relief (LRR), which is a 150 percent tax relief for remediating contaminated land. Then there are Enhanced Capital Allowances (ECAs), which are a 100 percent up-front tax relief for companies investing in energy or water efficient technologies. Research & Development Tax Relief (R&DTR) is a tax relief of up to 175 percent available on certain costs relating to R&D activities, such as the development of new recycling or energy from waste techniques. With all of these incentives available to business, why are they not more widely taken advantage of?

There are three main reasons for this. Firstly, and overwhelmingly, the primary reason is limited knowledge of their existence. The individuals who are responsible for initiating projects within companies that can make direct use of such tax incentives are more likely to have a property or engineering background and not tax or accountancy. As a result, the potential tax benefits of investing in a particular project are either not known about or are not a primary driver of the investment decision.

The second reason that tax incentives for sustainable investment are not more widely used is perceived complexity of obtaining the relief. There is no doubt about it that some of the tax incentives are, at best, cumbersome and onerous to obtain in practice and at worst, downright bewildering. Take the example of ECAs. The hoops that have to be jumped through to support a successful claim for ECAs are unnecessarily complex and are, in our view, a barrier to investment rather than an incentive.

The final reason for the lack of take-up of the available tax incentives is the fact that they are overlooked or not given the attention they warrant because not many realise their true value. It is all very well saying that you can have a 150 percent tax deduction for remediating contaminated land, but what does that actually mean in practice?



## Land Remediation Relief Enhanced Allowances

WE RECENTLY carried out a review of the property assets of an Institutional investor client who had a significant number of properties they had developed and held as investment. However, within their portfolio were a number of sites that they had owned for some time but never developed. When I enquired why they had not been developed, I was told that, invariably, they were "problem sites" which were too costly to remediate and therefore the development appraisals did not "stack up". However, when I pointed out the Land Remediation Relief tax incentives available for remediating such sites this had a significant impact on the development appraisals. One site in particular was very costly to remediate. The site of a former heavy engineering works, it had lain derelict for 15 years. The buildings on the site had been demolished but there were huge reinforced concrete ground beams and pile caps, not to mention the presence of radon and the fact that it was extensively pervaded by Japanese Knotweed. A true "nightmare site"! The cost to remediate it was in the order of £2m. Without taking LRR into account, this £2m was just an unavoidable cost of the project, which came straight off the development profit. However, when the LRR was factored in, the £2m cost was worth £3m in LRR which, for a 28 percent taxpayer, equates to a potential tax saving of £840 000.

The key point here though is that until the investor was made aware of these tax benefits, the development was unlikely to proceed. If only those engaged in providing services relating to the remediation of contaminated land could highlight these benefits to potential clients, this would not only enhance the tenders of these companies but may also stimulate development in the first place. This would have favourable implications for all kinds of industries such as demolition contractors, land remediation and environmental waste consultants, asbestos removal contractors, Japanese Knotweed specialists etc etc.

WE ATTENDED an event recently that launched a new range of grants being made available by The Carbon Trust for investing in energy efficiency measures, such as energy efficient light fittings, boilers, combined heat and power plant etc. Speaker after speaker stood up and informed the audience about how the grant would effectively reduce the capital cost of their product which, when combined with reduced running costs, would dramatically reduce

the payback period of the product. Without exception, no one mentioned Enhanced Capital Allowances, which is a 100 percent tax relief available to companies investing in energy and water efficient equipment.

To take the example of one of the speakers at the event whose company made energy efficient light fittings, the capital cost of a lighting re-fit scheme his company was involved with was £110 000. The grant available from The Carbon Trust equated to about £30 000, thereby making the effective cost £80 000. However, the speaker completely overlooked the tax relief that investing in such a scheme would generate, a further £30 800 for a 28 percent taxpayer, making the effective cost not £80 000 but £49 200. When this is combined with the ongoing energy savings, it makes the scheme infinitely more attractive to a potential buyer because it pays for itself in little over a year. And, even if the company purchasing the equipment was loss-making and could not use the capital allowances directly, they could claim a cash rebate from HMRC equating to 19 percent of the loss generated from investing in the technology. So, if the investment gave rise to an £80 000 loss, £15 200 could be given as a tax repayment.

As with the Land Remediation Relief example above, the main message arising out of this from a business opportunity perspective is how much easier the sale would have been to a

purchaser if these benefits had been pointed out in the first place. This simple example relates to light fittings but Enhanced Capital Allowances are available for all kinds of energy and water efficient technologies from rainwater harvesting systems at one end of the scale right up to huge waste to energy plants at the other. The theme is universal – clients are generally unaware of the true value of these incentives, so anything the service providers can do to spread the word can only be a positive thing.

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## R&D Tax Relief

INVARIABLY, COMPANIES providing services to the waste management industry are involved in developing new technologies for the treatment of waste or improving and enhancing existing technologies. The development of these technologies may attract R&D tax relief. For small and medium sized entities developing these technologies in-house, 175 percent of development costs (ie staff costs, utilities and materials) will be available as a tax deduction against profits. Alternatively, if acting as a contractor for a larger entity, 130 percent of these costs will be available as a tax deduction.

Again, if these deductions are factored into tenders at the outset, the attractiveness of the offer is enhanced.

The tax savings available to the end users of services provided by the waste management industry, and those associated with it, are very significant. These end users are invariably unaware of the significance, availability and value of these savings. If the waste management industry can highlight these benefits to potential clients it will not only add to the attractiveness of their offer but may also stimulate investment generally. **CWM**

**Capitus is an investment incentives consultancy and offers a free guide on the tax incentives for sustainable development and urban regeneration. Visit [www.capitusgroup.co.uk](http://www.capitusgroup.co.uk)**