The Great Green Giveaway

Aubrey Calderwood, director of tax specialists Capitus, comments on some of the tax incentives available to companies considering investment in the waste and environmental sectors

Ronald Reagan once said: "Government's view of the economy could be summed up in a few short phrases: If it moves, tax it; if it keeps moving, regulate it; and if it stops moving, subsidise it." Clearly movement in the UK economy has been sluggish of late, so what measures will the Coalition Government take to stimulate growth and how does this impact the waste and environmental sector?

In recent Budget documents the Government stated its desire to be the "greenest government ever" and is keen for the UK to be recognised as a world leader in the development of green technology. But how do the financial and taxation incentives available compare to the political rhetoric?

Innovate To Stimulate

THE GOVERNMENT recognises that rebuilding the manufacturing industry is vital to drive the export-led growth required to power the UK economy. It is envisaged that the waste and environmental sector will play an integral part in this growth as green technologies or systems are developed and offered to the global marketplace. Innovation is of prime importance to this sector and, to encourage companies in this regard, the tax relief available on research and development (R&D) expenditure has been increased and is now more generous than ever.

Small and medium-sized companies (SMEs) investing in R&D, for example in new recycling or energy from waste technologies, will now be able to claim 200 percent tax relief on this R&D expenditure, rising to 225 percent from 2012.

Importantly, loss-making companies that are perhaps in early phase development prior to commercialisation, may claim a cash credit from HM Revenue and Customs (HMRC). It is expected that up to 28 percent of the total R&D expenditure may be reclaimed. In the example above, this would mean a cash rebate of £28 000 from the initial spend of £100 000 from HMRC.

Incentives For Energy And Water Efficient Technology Enhanced Capital Allowances (ECA) provide 100 percent up-front tax relief for companies investing in all kinds of energy- and water-efficient technologies, from combined heat and power systems, ground source heat pumps and biomass boilers, right up to large waste to energy plants.

ECAs have been available for some time now but the latest Budget delivered the welcome news that the list of ECA qualifying technologies is going to be updated and extended in the summer of 2011, with consideration for feed-in tariffs and renewable heat technologies. The benefits of the scheme extend not only to the investors, but also to

Recycle's R&D

RECYCLE LTD has spent £100000 developing new waste sorting technology. By claiming R&D tax relief the company would be able to reduce the tax bill payable on its profits by £200000 – for a SME 20 percent corporation tax payer that's a tax saving of £40000.

ECA For Machine Co

MACHINE CO Ltd invests £150000 in an ECA-qualifying air-conditioning system for its premises. The company may claim the full £150000 against taxable profits in the year of expenditure, thereby providing a cash tax benefit (at 28 percent) of £42000 and a net cost in year one of £108000.

Had Machine Co. Ltd chosen to invest in a cheaper, non ECA unit at £130000, only eight percent of the expenditure could have been claimed against taxable profits, producing a tax benefit of only £10400 and a net cost of £119600 in year one.

The remaining tax relief will be released on a reducing balance method over the next decade.

LRR Remediation

A DEVELOPMENT company wishes to develop a former metal works site that has traces of arsenic and other chemicals and requires the removal of post-tension concrete and foundations. The site is also extensively infested with Japanese Knotweed. The remediation costs are estimated at £750000, which represent sunk costs that will reduce the bottom line profit of the development.

However, with a claim for LRR, the £750000 cost becomes a tax deduction of £1.125m (£750000 x 150 percent), providing a £315000 saving for a 28 percent corporation tax payer.

Importantly, if the development company does not have taxable profits during the period in which the remediation takes place, the company may surrender the LRR to HMRC in return for a cash payment of up 16 percent of the available relief (ie £180000 in the above example).

the manufacturers of energy/water-efficient technologies as their products become cheaper, relative to non-qualifying items.

For companies installing energy/water-saving technologies there are the obvious benefits of reduced running costs, which can reduce the payback period of the product. When this is combined with the fact that 100 percent of the cost of the technology can be off-set against the company's tax bill that year, as opposed to only eight percent if the technology is not energy/water-efficient, it often makes choosing "green" technology extremely cost-effective. If the company is loss-making, it can elect instead to take a cash rebate of 19 percent of the ECA qualifying expenditure.

For manufacturers of energy/water-efficient technologies, ECAs should be viewed as a customer benefit not to be underestimated. Often "green" technology is perceived as being more expensive than less green alternatives – the so-called "green premium". However, when you take into consideration the 100 percent up-front tax relief available, as shown in the above example, it often makes installing such technology a cheaper option than less sustainable options, notwithstanding the lower running costs.

Therefore, manufacturers of sustainable technologies should educate the sales team of the benefits to customers of ECAs, and we would actively encourage companies to familiarise themselves with the rules and make sure their products are on the approved technology list.

Remediation Costs

IN THE 2011 Budget the Chancellor announced that some 43 tax reliefs and allowances might be abolished over the next few years. Land Remediation Relief (LRR) is on the list to be removed from April 2012, therefore a short window of opportunity exists in which to take advantage of this generous corporation tax relief.

Contaminated land can be costly to remediate and we regularly meet land owners who haven't commenced the remediation of sites because they think it's going to be so costly that it will undermine financial viability of the development. However, when LRR is factored into the development cost from the outset, that needn't be the case. LRR is a corporation tax relief providing 150 percent deduction for the cost of bringing contaminated land back into a commercially usable state.

Fortunately, all is not lost if you have previously undertaken a remediation exercise and not claimed LRR. The good news is that it is possible to make retrospective claims up to four years from the end of the accounting period in which the expenses incurred.

As with many tax reliefs, claiming LRR is often considered to be a financial sweeping-up exercise carried out by accountants after a project is completed. However, when LRR is factored into project costing from the outset it can often be the tipping point that makes a brownfield development project financially viable or more profitable. Investors and developers should therefore ensure the relief is claimed before the window is slammed shut for good.

Sustainable Banking?

A FURTHER development announced by the Government earlier this year was the launch of the £3bn Green Investment Bank (GIB) to fund green infrastructure projects. In theory, the idea is appealing and with the GIB's ability to secure external funding, it is expected that up to £18bn of investment will be available by 2015.

Although important details about the GIB remain under wraps, it does seem to provide a starting point for investment in low carbon and alternative energy projects and hopefully further commitment will be provided in future years.

For now, businesses in the waste and environmental sectors should ensure that they, and the end users of their services, are aware of the very significant tax savings that are available to them. If the industry was more aware of the potential savings to be realised it could considerably enhance the attractiveness of its products and service. CIWM

Capitus is an investment incentives consultancy, specialising in tax incentives available to the waste and environmental sector