



Enhanced Capital Allowances

Background

Following the March 2008 budget, the writing down allowance rate for plant and machinery was reduced from 25% to 20% (with a further reduction to 18% from April 2012). However, for plant and machinery that is deemed to be an “integral feature”, a new rate of 10% was introduced although this will also reduce from April 2012 to 8%). This applies to nearly all mechanical or electrical services in a property that satisfy the usual criteria for qualifying as plant or machinery.

The 1997 Kyoto Protocol set carbon emission reduction targets for governments around the world. One of the ways in which the British Government attempted to meet these targets was through the introduction of enhanced capital allowances (ECAs) for investment in energy-efficient technologies.

The ECA scheme also includes expenditure on water-efficient technologies.

ECAs rates of allowance

Expenditure on such technologies qualifies for a 100% First Year Allowance (FYA) and it is available to all businesses.

From 1 April 2008 a payable tax credit was introduced where investment in energy and water efficient technologies results in a loss.

The amount payable as a tax credit is 19% of the loss surrendered and there is an upper limit equivalent to the level of the company's PAYE and National Insurance contributions for the year in which the claim is made.

Scheme operation

The ECA scheme for both energy and water efficient technologies is operated through the ECAs website: <http://etl.decc.gov.uk/etl>.

This website lists the current technologies eligible for the 100% FYA and is updated on a monthly basis with new technologies being constantly added to the list. See next page for a list of the technologies currently covered by the scheme.

The website also gives advice on how to make a claim, although it is in relation to this point that taxpayers experience the greatest difficulties. On the one hand, the government provides a valuable incentive to encourage taxpayers to invest in “green” technologies, but on the other hand makes it very onerous to obtain the relief in practice.

For example, in relation to the energy technology list, the supporting documentation required will vary according to the technology type claimed. There are two groups of technology type. The first group is “Listed Products” which meet the criteria in the Energy Technology Criteria List (ETCL) and are also listed on the Energy Technology Product List (ETPL). The other group of products are referred to as “Non-Listed Products” which meet the ETCL but are not listed on the ETPL. For example, to claim ECAs for Combined Heat Power plant, it has to meet the standards of the ETCL, it is required to be listed on the ETPL but it needs to be certified! Confused? You will be even more so when you read the next paragraph in relation to supporting documentation taken from the ECAs website.

“It is important to retain all documents, relating to your ECAs claim including invoices, dated screen prints from the ECAs website and anything from the company that installs the equipment. HMRC may investigate any aspect of a tax return and you should have all the necessary evidence to hand to support your claim”.

Anyone who has ever been involved in a construction project will realise that the building cost information is simply not presented this way.



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So what is the solution?

Fortunately, Capitus has evolved a process involving the design team, the building contractor and ourselves which will alleviate many of the problems and ensure that claims for ECAs are maximised and obtained.

We have produced a detailed guide which directly relates to the various phases of the RIBA plan of work and lists practical steps that must be taken at each stage of the design process to ensure that ECAs claims can be maximised and supported. If you would like to receive a copy of this guide please contact us.

Current ECAs qualifying technologies

The following technologies are currently covered by the ECAs scheme.

Product categories

Energy Efficient Technologies

- Air-to-air energy recovery devices
- Automatic monitoring and targeting equipment
- Boiler equipment
- Combined heat and power (CHP)
- Compressed air equipment
- Heat pumps for space heating
- Heating ventilation and air conditioning equipment
- High speed hand air dryers
- Lighting
- Motors and drives
- Pipework insulation
- Refrigeration equipment
- Solar thermal systems
- Uninterruptible power supplies
- Warm air and radiant heaters

Water Efficient Technologies

- Cleaning in place equipment
- Efficient showers
- Efficient taps
- Efficient toilets
- Efficient washing machines
- Flow controllers
- Leakage detection equipment
- Meters and monitoring equipment
- Rainwater harvesting equipment
- Small scale slurry and sludge dewatering equipment
- Vehicle wash water reclaim units
- Water efficient industrial cleaning equipment
- Water management equipment for mechanical seals
- Water reuse system

Please contact Aubrey Calderwood calderwood@capitus.co.uk for further details.