

Taxman gives to you

Generous tax reliefs for those operating in the waste and recycling sector are often overlooked but can have a significant effect on overall costs, says **Aubrey Calderwood**

AT A GLANCE

Enhanced capital allowances, general plant and machinery allowances, land remediation relief, business premises renovation allowances and R&D tax relief could save you significant costs

■ ENERGY GENERATION IS THE 21ST CENTURY GOLD RUSH. WITH EXPERTS ESTIMATING THAT

the UK will need around 500 energy plants between now and 2025, investment in the market is expected to exceed £2bn a year. Building an energy plant is a costly business. But the good news is that there are valuable tax reliefs available which can, when factored in from project outset, have a significant effect on the overall cost.

These generous tax reliefs are often overlooked, perhaps through a lack of awareness that they exist or an assumption that the project accountants will claim them as part of a post-project financial sweeping up exercise. In reality, accountants often lack the property expertise required to claim the maximum tax reliefs allowed and therefore claim only for the more obvious aspects.

If paring back project costs is a priority, capitalising on these valuable tax reliefs offers a good starting point. But it is important to factor them in right from the start of the project design process in order to qualify for the maximum allowable.

To demonstrate the value of the available tax reliefs in a practical way, we will consider the fictitious example of Wastenot, a waste management company seeking to build a 200,000 tonnes a year MBT plant with a capital cost of £25m. We will assume that Wastenot is a 26% corporation tax payer.

■ Enhanced capital allowances (ECAs) are tax incentives available to companies planning to install energy- or water-efficient technologies. To qualify, the technology must appear on the Government's Energy Product Technology List (*visit <http://etl.decc.gov.uk/etl> for the full list*).

If the technology being used in the energy plant qualifies for ECAs, the entire cost of the technology can be offset against the company's tax bill that year, thereby reducing the tax liability significantly. All



energy plants should contain elements of plant on which ECAs will apply. Importantly, if the outlay of building the energy plant puts the company in a loss-making situation, it can claim a tax credit of 19% – literally a cheque in the post – of the ECA expenditure instead.

Example: Wastenot decides to include a £2m combined heat and power (CHP) plant in the project. In addition, it installs an ECA-qualifying energy-efficient lighting and ventilation system throughout the general MBT plant at a cost of £1.2m.

Using ECAs, £3.2m (total expenditure on CHP and energy efficient technology) can be offset against the company's tax bill that year, giving a tax saving of £832,000. Note: the ECAs are in addition to general plant & machinery allowances available on the overall cost of the MBT installation (see below).

If Wastenot is loss-making that year, it could claim a 19% tax credit instead, worth £608,000. Had it chosen to install technology that did not qualify for ECA tax relief, it would be able to claim only between 10% and 20% back against its tax bill that year. If it were loss-making, it would not be able to claim a tax credit at all.

To take full advantage of ECA tax relief, at the design stage of the project make sure that the technology being installed is included on the ECA list. It could be a costly mistake to find out, after the technology has been purchased, that it does not qualify.

■ General plant & machinery allowances (PMAs) are available on equipment or fixtures such as mechanical and electrical installations which do not qualify for the higher tax relief offered by ECAs.

PMAs are available at a rate of either 10% or 20% a year (8% and 18% from April 2012), depending on the

type of fixture. As with ECAs, the allowances are offset against the company's taxable profits, which can reduce the amount of tax the company has to pay. There is no ability to claim a tax credit if the company is not profit-making.

Example: In a total expenditure of £25m, it is likely that Wastenot will be able to claim PMAs against fixtures of £8m-£13m, potentially meaning a tax saving of £3.38m for a 26% corporation tax payer.

■ Land remediation relief (LRR) is available where contaminated land has to be remediated as part of the project. The definition of 'contamination' is wide and, as well as the more obvious chemical contaminants, includes the removal of asbestos, concrete ground beams and even the eradication of Japanese Knotweed.

Where such contamination occurs, the company can claim tax relief of 150% of the remediation costs. If the company is loss-making, a tax credit of 16% of the remediation cost may be claimed.

Example: The site on which Wastenot wants to build the energy plant is contaminated with radon and is overgrown with Knotweed. In addition, ground piles still remain from the old factory that previously occupied the site. The total remediation cost will be £360,000 but, with LRR, this expense becomes a tax deductible amount of £540,000, meaning a tax saving of £140,000. If the company is loss-making, it may claim a tax credit instead of £86,400.

■ Business premises renovation allowances (BPRAs) are a 100% tax allowance available for bringing buildings in disadvantaged areas, that have been vacant for a year or more, back into commercial use. These can include city centres, former industrial zones and dockland areas. Check to see if your site falls into a BPRAs area because this valuable tax relief is often overlooked.

Land remediation relief is available where contaminated land has to be remediated as part of the project



BPRAs are only applicable where existing buildings have been renovated as part of a commercial venture – it does not apply if old buildings have been flattened to make way for new development. But with BPRAs-savvy design, it is often possible to retain some existing buildings on a site, which can then be used as part of the overall energy plant, for example office space. BPRAs can then be claimed on that part of the building project.

Example: Wastenot's site on a former industrial zone has several derelict buildings from the previous occupier. As part of the overall design, it is agreed that the buildings will be renovated to provide office and storage space for the energy plant. The cost of these renovations is £2.8m, which qualify for BPRAs tax relief. This means the company can offset 100% of the renovation costs against its tax bill that year, giving a tax saving of £728,000.

■ One further incentive worth mentioning is research & development (R&D) tax relief. It is often wrongly perceived that this is only available on scientific or high-tech projects. But HM Revenue & Custom's definition of R&D means that many companies in the waste sector could be claiming this generous relief, for example, for the development of new waste or recycling equipment and techniques.

From April 2011, 200% tax relief (225% from April 2012) can be claimed by small and medium-sized businesses on R&D expenditure incurred. Qualifying R&D expenditure includes employee costs, consumable materials and a proportion of utilities used during the project. For large firms, R&D tax relief is 130%. Retrospective claims can be made for R&D expenditure incurred up to two years prior.

If you have outsourced R&D to another company, you may still receive tax relief on the expenditure. And if your company has received a research grant for an R&D project you may also be eligible.

Example: Wastenot invests £100,000 researching and developing waste treatment technology. This project qualifies for R&D tax relief, allowing it to offset 200% (£200,000) against the company's tax bill that year, giving it a tax saving of £52,000. If Wastenot is loss-making, it could recoup some of its costs by taking a tax credit of 12.5% (£25,000) instead.

With a basic knowledge of the tax reliefs available, and some pre-design tax planning, companies involved in this market could be shaving considerable sums off their annual tax bills. And by cutting tax bills, companies would have more to reinvest in technology and processes, making them more efficient and potentially giving them an edge over the market. The tax reliefs are there for the taking, so seek specialist advice without delay. ■

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