# KEY PERSPECTIVES

## Are You Getting the Tax Relief You are Entitled to When Trying to Be Green In Business?


Driven by pressure from customers, employees, a raft of environmental legislation and concerns of local communities, an increasing number of businesses are introducing measures to reduce their impact on the environment. However, there are also sound business reasons for adopting green measures.

The benefits businesses may achieve include significant cost savings, greater efficiency, and perhaps lower insurance premiums, through improvements in your environmental policies and practices. In addition, improving "green credentials" might provide a competitive edge that strengthens your position in the marketplace. Are you one of those businesses? Are you claiming the tax reliefs you are entitled to?

**"It is important to plan capital expenditure and seek advice."**

*LOIS STIRLING*

For those businesses adopting green policies there are many tax advantages. One of those being the enhanced capital allowances scheme which enables a business to claim 100% first year capital allowances on capital expenditure on qualifying plant and machinery in four areas:

- Energy saving plant and machinery.
- Water conservation plant and machinery
- Low carbon dioxide emission cars
- Natural gas and hydrogen refuelling infrastructure.

## What is the Enhanced Capital Allowance Scheme?

The Enhanced Capital Allowances scheme (ECA) is part of the general capital allowances scheme designed to give tax relief to those investing in plant and machinery. The Enhanced Capital Allowance scheme was introduced by the Finance Bill in 2001 to encourage businesses to invest in equipment whose purpose is reduce energy consumption, and is an integral part of the climate change levy package.

The scheme provides an incentive for taxpayers to make investments in specific energy saving technologies and products that have been approved by the Department for Energy and Climate Change (DECC). The higher energy efficiency standards of the approved equipment can assist in achieving the levels of energy performance required under the Building Regulations. The scheme has now been extended to include water-saving technologies, such as rain water harvesting and efficient taps and showers.

The impact of the ECA scheme to businesses is that it accelerates the allowances into one year and not over 15 to 22 years as with the Special Rate Pool (SRP). Meaning that for a 19% tax paying entity for every £100 spent, £19 would be saved in tax as opposed to £1.52 in year one.

Let's have a look at the effect of capital allowances and enhanced capital allowances. A new city centre office building with total capital allowances of £3,750,000. This is broken down into £750,000 of enhanced capital allowances, £2,000,000 of special rate plant and £1,000,000 of main pool plant. The company owning the property pays 19% tax.

| Year | Main Pool 18% | Main Pool Balance | Special Rate Pool 8% | Special Rate Pool Balance | ECA 100% | Total | Cash Flow Saving |
|---|---|---|---|---|---|---|---|
| | | 1,000,000 | | 2,000,000 | 750,000 | | |
| 1 | 180,000 | 820,000 | 160,000 | 1,840,000 | 750,000 | 1,090,000 | 207,100 |
| 2 | 147,600 | 672,400 | 147,200 | 1,692,800 | ECA all relieved in year 1 | 294,800 | 56,012 |
| 3 | 121,032 | 551,368 | 135,424 | 1,557,376 | | 256,456 | 48,727 |
| 4 | 99,246 | 452,122 | 124,590 | 1,432,786 | | 223,836 | 42,529 |
| 5 | 81,382 | 370,740 | 114,623 | 1,318,163 | | 196,005 | 37,241 |
| Total | Allowances continue to be written off after year 5 | | Allowances continue to be written off after year 5 | | | 2,061,097 | 391,609 |

## What is the Enhanced Capital Allowance Scheme? (Contd)

The ECA scheme has also been utilised by the RICS Ska rating system for offices and retail, in that, it requires equipment that is to be installed meet or exceed the energy list criteria or be from the energy technology lists in order to achieve Bronze, Silver or Gold standards. So, it can be seen from the above example, that the costs associated with achieving a good rating or improving your Energy Performance Certificate (EPC) rating in order to let your property, can be offset in part by the tax saved by utilising the ECA scheme.

## How to Maximise the Capital Allowances Available

Capital allowances used to be seen as the icing on the cake in any property transaction but with the changes in legislation, this is no longer the case. If you want to maximise any allowances, the allowances must be considered early. This is also true with developments, as well as purchases, and only proper, prior, planning will maximise the allowances available, and nothing is truer than with Enhanced Capital Allowances.

ECAs will only be maximised if considerable pre-planning takes place prior to specification and equipment choices being finalised. Research has shown that the most successful claims for ECA are achieved when the design team are knowledgeable and ECA are highlighted early in the project and an appropriate strategy adopted to maximise tax relief. The later this is dealt in a project, the fewer opportunities are available to maximise the claim.

The design decisions will affect a claim's value but these decisions should never be made purely for tax reasons. However, by working in partnership, it is possible for the design team to achieve maximised results for tax purposes without compromise to or affecting the overall design solution. It will also ensure the tender documentation and specifications contain the necessary clauses and information on 'qualifying' equipment and technologies to enable their identification and valuation to be made, and satisfy Her Majesty's Revenue and Customs (HMRC) requirements.

We would highlight that care must also be taken to ensure that the item to be purchased remains on the Technology List at the time of purchase. It is not unknown for a piece of equipment to be on the list at design stage but by the time of purchase it has been removed, and thus the tax relief was lost.

Any claim for ECA must, of course, be approved by HMRC. To ensure that your claim is not rejected evidence will be required to support any claim for ECA in the event of an HMRC enquiry. The supporting documentation necessary will vary depending on whether the technology claimed is a listed or non-listed technology.

## The Technologies

For energy products there are two technology lists :-

**Listed Technologies**: the products must be listed on the Energy Technology Product List (ETPL) at the time the expenditure was incurred or when the contract for the supply of the product was entered into.

**Non-Listed Technologies**: in order to be eligible for ECA's in this category specific technologies are required to perform within the parameters of the published eligibility criteria for the relevant technology. Five of the sixteen technologies covered by this process are:

- Air Source Split and Multi-Split Heat Pumps (incl VRF)
- Automatic, Monitoring and Targeting (AMT) equipment (component based)
- Lighting: High Efficiency Lighting Units (HELU's), lighting control systems and white light emitting diode lighting units
- Pipework insulation
- Combined Heat and Power (CHP) installations

If installing any of the above technologies, it is necessary to obtain confirmation that the operational performance of the equipment installed satisfies the stated eligibility criteria relevant at the time of installation. This information should be provided by the supplier or installer of the product purchased, and the confirmation can then be used as supporting evidence in the event of an HMRC enquiry.

To assist in obtaining the information from the supplier/installer, the supplier or installer should be made aware of the client's intentions regarding the claiming of ECA's. They should also be provided with a copy of the eligibility criteria to allow them to assess if the product(s) being purchased meets the required energy efficiency standards. The eligibility criteria for the technologies listed above can be found at the ECA web page.

The fifth non-listed technology noted, above requires some special treatment, to ensure the plant qualifies for ECA. The confirmation process in this case is not carried out by the equipment supplier or installer but by a third party assessor acting on behalf of the DECC.
The Combined Heat and Power Quality Assurance (CHPQA) programme requires particular information in order to establish if the system to be installed is eligible for ECA's. ECA's can only be awarded if the CHP installation initially achieves 'Good Quality' CHP status. A Certificate of Energy Efficiency for ECA's will then be issued stipulating the percentage of ECA's that can be claimed in line with the energy efficiency of the CHP installation. Guidance note 42: Use of CHPQA to Obtain Enhanced Capital Allowances published by the CHPQA gives more detailed information on how to claim ECA's. The guidance note can be accessed at the following DECC webpage along with further information on the programme and the application process here.

## The Technologies (Contd)

**For water-saving technologies:** The Water Technology List was published in July 2003 and is in two parts:-

- the Criteria List - consists of technologies and their eligibility criteria.
- the Product List - which was published in Autumn 2003. It lists the eligible products and, in some cases, claim values to be used when the product is incorporated in a larger piece of equipment.

## What qualifies for ECA?

Qualifying spending is capital expenditure incurred on the provision of new energy-saving plant and machinery for business purposes.The current list of qualifying Energy and Water Technologies as at March 2017 are:

| Energy Technologies | Water Technologies |
|---|---|
| • Air-to-air energy recovery | • Cleaning in place equipment |
| • Automatic monitoring and targeting | • Efficient showers |
| • Boiler equipment | • Efficient taps |
| • Combined heat and power | • Efficient toilets |
| • Compact heat exchangers | • Efficient washing machines |
| • Compressed air equipment | • Flow controllers |
| • Heat pumps | • Grey water recovery and reuse equipment |
| • Heating ventilation & air conditioning | • Leak monitoring and control equipment |
| • High speed hand driers | • Meters and monitoring equipment |
| • Lighting | • Rainwater harvesting equipment |
| • Motors and drives | • Small scale slurry & sludge dewatering equip |
| • Pipework insulation | • Vehicle wash water reclaim units |
| • Refrigeration equipment | • Water efficient industrial cleaning equipment |
| • Solar thermal system | • Water management equipment for mechanic |
| • Uninterruptible power supplies | • Water reuse |
| • Warm air and radiant heater | |
| • Waste heat to electricity conversion | |

## What Qualifies for ECA? (Contd)

With the exception of the non-listed technologies, the majority of the listed technologies above have a number of sub-categories listed under them.

In addition to the direct capital costs incurred certain allowable add-on items can be included valuing the amounts of ECA available. Such items as transportation to site, relevant professional fees and the cost of installing the equipment.

There are some exclusions and certain expenditure does not qualify for ECAs, in particular: Expenditure incurred on used plant and machinery, second hand plant or machinery, and expenditure incurred before 1 April 2002 on equipment acquired for leasing, letting or hire to other businesses.

It is worth noting, that while preparing your claim be sure you are not double claiming. As from April 2012, it is now not possible to claim ECA on a qualifying piece of equipment that is also receiving a Feed-in-Tariff (FiT) or Renewable Heat Incentive (RHI) payment. Finance Bill 2012 introduced measures which allows either the ECA on the equipment to be claimed or a FiT or RHI payment, not both. However, capital allowances at the special rate of 8% will still be available.

## Claim Values

The key supporting evidence for a listed technology is the screen prints from the ECA website of the product being claimed and evidence of the expenditure incurred by the claimant. This can be an invoice if the product was directly purchased by the claimant or an interim valuation or final account showing the incurred expenditure was part of a programme of construction works.

If the cost of the product being claimed cannot be directly identified then a claim value should be used. Claim values are published values for items of equipment that are components of a larger piece of equipment or system. They are only published for particular listed technologies and these can be viewed via the claim values information page on the ECA website here.

No claim values exist for non-listed technologies. The costs claimed should therefore follow the same evidence based route as for a listed technology.


## How to make a claim

Claims for ECA are made in the same way as other capital allowances via the Corporation Tax Return for companies and the Income Tax Return for individuals and partnerships. HMRC administer all claims for both ECAs and both special rate and general plant and machinery capital allowances.

## Summary

If you are considering enhancing your environmental policies by investing in energy or water saving technologies we at Ćavetta Consulting can guide you through the process.  We will take the time with your design team to ensure that, if ECA are an important factor in your project steps are in place to ensure ECAs can be claimed.  ECAs can offer a potential cash flow benefit, if they fit with the projects development criteria.

## Our Service

We offer a no obligation review of completed or potential schemes, in order, to determine whether a viable claim for property tax reliefs can be claimed. Our fee structure is tailored to take account of the tax status of the individual or business, and is designed to add value to your business.

If you would like further information on this topic or any other capital allowances issues, please contact Lois or Alan.   Alternatively, you can email us at info@cavettaconsulting.com.

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