

Changes to capital allowances

(Lecture B1082 – 10.40 minutes)

Enhanced capital allowances (ECAs) for energy-saving and water efficient technologies

Capital expenditure incurred on certain energy-saving and water efficient technologies qualifies for 100% ECAs.

These rules operate in addition to the provisions for annual investment allowances (AIAs) and are particularly beneficial for businesses that have utilised their full AIA entitlement. Relevant details can be found at:

- www.gov.uk/guidance/energy-technology-list (for energy-saving products); and
- www.watertechnologylist.co.uk (for water efficient products).

The availability of ECAs allows profitable businesses to deduct the full cost of investments in energy-saving and water efficient plant or machinery from their taxable profits. Loss-making businesses, however, cannot enjoy this facility. Instead, such businesses are permitted – but only if they are *companies* – to claim first year tax credits when they invest in products that feature on the Energy Technology and Water Technology lists. When first year tax credits were originally introduced for a five-year period in April 2008, companies could surrender losses that were attributable to their ECAs in exchange for a cash payment (this is the first year tax credit). The relevant claim percentage was set at 19% so that a company that incurred qualifying ECA expenditure of £100,000 could receive a tax-free cash rebate of £19,000. At the time, 19% was two-thirds of the then corporation tax rate of 28%. The first year tax credit is subject to an upper limit that is the greater of:

- the company's PAYE and NIC liabilities for the period; or
- £250,000.

The scheme was extended for a further five years in 2013 to ensure that loss-making companies were encouraged to continue purchasing energy-saving and water efficient products. Although first year tax credits were due to expire on 31 March 2018, the Government have decided to amend Sch A1 CAA 2001 in two respects:

- arrangements will be extended for another 5-year period until 31 March 2023);
- claim percentage will be revised to two-thirds of the current corporation tax rate (ie. in line with the original policy intention).

This has been enacted in S29 FA 2018.

Allowances for zero-emission goods vehicles and gas refuelling equipment

The 100% reliefs for capital expenditure on:

- zero-emission goods vehicles (see S45DA CAA 2001); and
- gas refuelling equipment required to refuel vehicles powered by natural gas, biogas or hydrogen (see S45E CAA 2001)

which were due to come to an end this spring are being extended by three years (SI 2017/1304). The rules for zero-emission vehicles will now expire on 31 March 2021 (for persons within the charge to corporation tax) and on 5 April 2021 (for persons within the charge to income tax). The regime for gas refuelling equipment will terminate on 31 March 2021 for both corporation tax and income tax payers.

Contributed by Robert Jamieson