HM Revenue & Customs

Capital allowances: extension of enhanced capital allowances for car and goods vehicles to 2018

Who is likely to be affected?

Businesses planning to purchase low CO_2 emission cars, zero-emission goods vehicles, or gas refuelling equipment for vehicles.

General description of the measure

Extension to March 2018 of three 100 per cent enhanced capital allowances (ECA) schemes - for expenditure incurred on low CO_2 emission cars, zero-emission goods vehicles, or vehicle gas refuelling equipment - otherwise due to end in March 2015.

In addition, the ECA for zero-emission goods vehicles will be unavailable where another form of State aid has, or will be, received. In the case of low CO_2 emission cars the qualifying CO_2 threshold will also be reduced.

Policy objective

These allowances are designed to support the Government objective of increasing the use of cleaner transport by business and reducing CO_2 emissions.

Background to the measure

The Government announced its intention to extend these measures in Budgets 2013 and 2014.

Detailed proposal

Operative date

For zero-emission goods vehicles the three year extension and State aid change will be made by primary legislation and will apply to qualifying expenditure incurred on or after 1 April 2015 for corporation tax (CT) and 6 April 2015 for income tax (IT). The scheme will end on 31 March 2018 for CT and 5 April 2018 for IT.

For gas refuelling equipment and low CO_2 emission cars the three year extension, and reduction in CO_2 thresholds to 75 gms for qualifying cars, will be made by secondary legislation early next year and will apply to expenditure incurred on or after 1 April 2015 for CT and IT. Both schemes will end on 31 March 2018 for both CT and IT.

Current law

Business capital expenditure on plant and machinery normally qualifies for tax relief as capital allowances, which are normally given at the rate of 18 per cent a year on a reducing balance basis.

Under current law, 100 per cent ECAs are available to businesses that purchase:

- Cars that emit 95 grams or less of CO_2 per kilometre driven or electrically propelled cars – section 45D Capital Allowances Act 2001 (CAA).
- Zero-emission goods vehicles – sections 45DA and 45DB CAA.
- Equipment required to refuel natural gas, biogas and hydrogen powered vehicles – section 45E CAA.

These allowances are all due to end on 31 March 2015.

Proposed revisions

Primary legislation will be introduced to extend the availability of ECAs for zero-emission goods vehicles to 31 March 2018 for persons within the charge to CT and 5 April 2018 for IT.

In addition a rule will be introduced preventing claims to the ECA being made if another form of State aid has or will be received, to bring the relief into line with other State aids.

Secondary legislation will be introduced to extend the availability of ECAs for Low CO_2 emission cars and gas refuelling equipment to 31 March 2018 for persons within the charge to CT and IT.

In the case of cars the qualifying low emission threshold will also be reduced from 95 to 75 grams per kilometre driven.

Summary of impacts

Exchequer impact (£m)		2014-15	2015-16	2016-17	2017-18	2018-19
	Zero-emission goods vehicle	-	negligible	negligible	-£5m	negligible
	Gas refuelling equipment	-	negligible	negligible	negligible	negligible
	Low CO_2 emission cars	-	-£5m	-£15m	-£20m	-£15m
	The first row presents the zero emission goods vehicle element of the measure. The Exchequer cost was included in the overall cost of a package of changes to VED and capital allowances, set out in Table 2.1 of Budget 2014. The figures have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2014. The second row presents figures for the gas refuelling equipment element of the measure, which is expected to have a negligible impact on the Exchequer. The third row presents figures for the low CO2 emission cars element of the measure. These figures are set out in Table 2.2 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2013.					

Economic impact	These measures are expected to continue encouraging the higher levels of investment in cleaner transport and alternative fuels. No significant wider economic impacts are expected.
Impact on individuals and households and families	Capital allowances can only be claimed on qualifying expenditure incurred by businesses. Any extension to the ECA regime and amendments to the CO_2 emission thresholds should have no impact on households. The measure is not expected to impact on family formation, stability or breakdown as it is aimed at plant and machinery used by business.
Equalities impacts	It is not expected that an extension of the reliefs to 2018, and the other changes, will have any impacts on the equality of groups sharing protected characteristics.
Impact on business including civil society organisations	Extending the schemes to 2018 is likely to have a negligible impact on administration burdens for businesses. The impact of changes in the qualifying CO_2 threshold for cars is expected to be negligible, as an individual car's CO_2 emission data is set out in its vehicle registration certificate (V5C). In the case of zero-emission goods vehicles there may be some impact if businesses receive grant funding that is a State aid, such as plug-in van grants, towards the purchase price of a qualifying vehicle. This is because, any ECA claimed on or after the date of change, will have to be repaid if a State aid is then later received. The change is required to ensure compliance with State aid rules that the ECA for zero-emission goods vehicles has been designed to meet. If this occurs, this will be a negligible one-off cost. These measures will have no impact on civil society organisations.
Operational impact (£m) (HMRC or other)	This change will not increase HM Revenue & Customs' processing or compliance resource needs.
Other impacts	<u>Carbon assessment</u>: the measure will have an indirect impact in reducing carbon emissions and support the Government objectives to reduce greenhouse gas emissions and improve air quality, especially in urban areas. <u>Small and micro business assessment</u>: small and micro businesses use transport like any other business. These measures are designed to encourage all such all business to use low carbon transport. Consequently, the impact of this measure on such businesses will be negligible one-off costs. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review by monitoring of car and van sales and other available data.

Further advice

If you have any questions about this change, please contact Nick Williams on 03000 585660 (email: nicholas.williams@hmrc.gsi.gov.uk).

1 Zero-emission goods vehicles

(1) CAA 2001 is amended as follows.

(2) In section 45DA(1)(a) (period during which first-year qualifying expenditure may be incurred), for “5 years” substitute “8 years”.

(3) Section 45DB (exclusions from allowances under section 45DA) is amended in accordance with subsections (4) to (7).

(4) In subsection (7), omit “notified” (in both places).

(5) In subsection (8), omit “to that extent”.

(6) In subsection (11), omit the definition of “notified State aid”.

(7) After that subsection insert—

“(11A) Nothing in this section limits references to “State aid” to State aid which is required to be notified to and approved by the European Commission.”

(8) The amendment made by subsection (2) comes into force on the day on which this Act is passed.

(9) The other amendments made by this section have effect—

(a) in relation to a relevant grant or relevant payment made at any time (whether before or on or after the specified day) towards expenditure incurred on or after that day, and

(b) in relation to a relevant grant or relevant payment made on or after the specified day towards expenditure incurred before that day.

(10) “The specified day” means—

(a) for income tax purposes, 6 April 2015, and

(b) for corporation tax purposes, 1 April 2015.

EXPLANATORY NOTE

ZERO-EMISSION GOODS VEHICLES

SUMMARY

1. Clause [X] extends the Enhanced Capital Allowances (ECA) scheme for expenditure on zero-emission goods vehicles to [5 April 2018]. It was due to end on 31 March 2015 for corporation tax and 5 April 2015 for income tax. It also provides that no allowances are to be made if another State aid is received towards qualifying expenditure.

DETAILS OF THE CLAUSE

2. Subsection (1) provides that Sections 45DA and 45DB of the Capital Allowances Act 2001 are amended.

3. Subsections (2) and (8) amend section 45DA(1)(a) to extend the scheme to 2018, with effect from Royal Assent.

4. This ECA is a State aid designed to comply with the environmental protection section of the General Block Exemption Regulation no. 651/2014 (GBER). Section 45DB ensures that the rules set out in the GBER are met. The amendments made at subsections (3) to (10) ensure continued compliance with the GBER.

5. Subsections (4), (6) and (7) delete various words and phrases and add a new subsection 45DB(11A). The effect is to provide that any reference to State aid in the section is to be read widely to include all State aid, and not just aid notified to or approved by the European Commission.

6. Subsection (5), read with subsections (9) and (10), mean that by deleting “to that extent”, the effect is to provide that the ECA is not available, or will be withdrawn, where

- qualifying expenditure has been incurred on or after 1 April 2015 for corporation tax or on or after 6 April 2015 for income tax and a grant that is a State aid is also received on or after 1/6 April 2015;
- qualifying expenditure has been incurred on or before 31 March 2015 for corporation tax and 5 April 2015 for income tax, and a grant that is a State aid is received on or after 1/6 April 2015;
- qualifying expenditure has been incurred on or after 1 or 6 April 2015, and a grant that is a State aid is received on or before 31 March/5 April 2015.

In essence a decision has to be made whether to claim ECA or receive a grant, or other payment, that is a State aid.

BACKGROUND NOTE

7. Capital allowances allow the cost of capital assets to be written off against taxable profits. They take the place of depreciation charged in the commercial accounts, which is not allowed for tax. The main rate of capital allowances is currently 18 per cent per year on a reducing balance basis.

8. ECAs (properly called first-year allowances) are available for expenditure on certain types of plant or machinery. ECAs accelerate the rate at which tax relief is available for capital spending and allow a greater proportion of the cost of an investment to qualify for tax relief against a business's taxable profits of the period in which the investment is made. ECAs provide business with a valuable tax-timing benefit.

9. 100 per cent ECAs for expenditure on zero-emission good vehicles were introduced in 2010. It is one of a number of measures designed to help businesses reduce their CO_2 emissions and to encourage a shift to cleaner goods vehicles. The government announced in Budget 2014 that the scheme would be extended for further three years to 2018 when the existing scheme ends in 2015.

10. The ECA for zero-emission goods vehicles is a State aid and has been designed to comply with the GBER. The GBER exempts certain State aid measures from prior notification to the European Commission if various conditions are met. This clause includes a provision designed to ensure that the ECA remains fully compliant with the GBER rules about the cumulation of State aid, i.e. ensure that the maximum amount of aid that can be received for purchases of qualifying goods vehicles cannot be exceeded. It does this by ensuring that businesses can only claim the ECA or another State aid but not both.

11. If you have any questions about this change, or comments on the legislation, please contact Nick Williams on 03000 585660 (email: nicholas.williams@hmrc.gsi.gov.uk).