



## **Enhanced capital allowances schemes for energy-saving and environmentally beneficial (water efficient) technologies**

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### **Who is likely to be affected?**

Businesses purchasing designated plant and machinery which uses energy efficiently, reduces water use or improves water quality.

### **General description of the measure**

This measure updates the lists of technologies and products covered by the energy-saving and water efficient enhanced capital allowances (ECA) schemes.

The schemes allow 100 per cent of the cost of an investment in qualifying plant and machinery to be written off against the taxable profits of the period in which the investment is made, improving cash flow for businesses.

### **Policy objective**

The schemes aim to reduce the consumption of energy and water by business, by encouraging their investment in the most efficient plant and machinery. This can help reduce overall energy costs and carbon emissions, aiding the UK's carbon reduction obligations, and encourages the sustainable use of water resources.

### **Background to the measure**

Since their introduction, in 2001 and 2003 respectively, the schemes have been updated annually to ensure that only the most efficient products are supported.

## **Detailed proposal**

### **Operative date**

Subject to State aid approval, the changes to the schemes will have effect on and after a date to be appointed by Treasury Order, to be made prior to the summer 2014 Parliamentary Recess.

### **Current law**

Capital expenditure by business on plant and machinery normally qualifies for tax relief by way of capital allowances. Once businesses have fully used their Annual Investment Allowance (AIA), which for the period 1 January 2013 to 31 December 2014 is £250,000, plant and machinery allowances are available at the 18 per cent main rate and the 8 per cent special rate.

These two ECA schemes provide an alternative 100 per cent first-year allowance for expenditure on certain energy-saving and water efficient technologies, which is particularly beneficial for those businesses that have fully used their AIA.

Recommendations for updates to the list of qualifying technologies and products for the schemes, and reviews of the relevant criteria are made annually – by the Department of Energy and Climate Change (DECC) in respect of the energy-saving scheme; by the Department for Environment, Food and Rural Affairs (Defra) in respect of water. These departments then consult on the relevant changes. Treasury Ministers decide on the availability of the ECAs, with the qualifying technologies published in the Energy Technology Criteria List and Water Technology Criteria List.

## Proposed revisions

It is intended that secondary legislation will amend the list of technologies that qualify for the energy-saving scheme to include two new technologies: Active chilled beams and desiccant air dryers with energy saving controls. The qualifying criteria for twelve current technologies will also be revised.

The water efficient scheme will be amended to clarify the qualifying criteria for a number of technologies and to incorporate changes in technical standards. The primary amendment is to the criteria for efficient washing machines, to enable a slightly wider range of businesses to benefit from the scheme

Details on when the new lists take effect will be published in the Energy Technology List and Water Technology List section of the GOV.UK website.

## Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	negligible	negligible	+5	+10	+15
	These figures are set out in Table 2.1 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 the Budget.				
<b>Economic impact</b>	The measure is not expected to have any significant economic impact on the overall UK economy. It should encourage businesses to concentrate their investments on technologies which will receive ECAs.				
<b>Impact on individuals and households</b>	This measure will not impact on households. Although it is possible for individual employees to claim capital allowances, it is unlikely that any would claim ECAs.				
<b>Equalities impacts</b>	The ECA schemes are aimed at businesses. Following discussions with DECC and Defra on this year's amendments, HM Revenue & Customs (HMRC) has not identified any impact on any specified groups.				
<b>Impact on business including civil society organisations</b>	<p>There will be some negligible one-off costs for businesses who consider buying products affected by the updates, including understanding what differences the updates may make to the capital allowances that they can claim.</p> <p>These updates only apply to business expenditure that qualifies for the schemes.</p>				

	<p>For 99 per cent of businesses there will be no impact because the majority of the expenditure they incur on plant and machinery will be eligible for full relief under the separate AIA which for the period from 1 April 2014 for businesses within the charge to corporation tax and 6 April 2014 for businesses within the charge to income tax to 31 December 2015 has been temporarily increased from £250,000 to £500,000. Even after AIA reverts to £25,000 from 1 January 2016, over 95 per cent of businesses will still be able to write off the majority of their qualifying expenditure under AIA.</p> <p>For those businesses that have fully used their AIA the updates will come into effect in the summer 2014. The scheme and qualifying products will be published in advance on the <a href="http://etl.decc.gov.uk">etl.decc.gov.uk</a> website. Where contracts have been finalised for the delivery of qualifying plant and machinery that are to be removed from the scheme as a result of the changes, those items will still qualify for the allowance even if delivered after the updates take effect.</p> <p>The updates will have a negligible impact on businesses and civil society organisations.</p>
<b>Operational impact (£m) (HMRC or other)</b>	This change will not increase HMRC's processing or compliance resource needs.
<b>Other impacts</b>	<p><u>Small and micro business assessment:</u> this measure applies to all sizes of business, but in practice it will only affect those with qualifying plant and machinery expenditure above the level of the AIA. As a result there is expected to be very limited impact on small firms, the large majority of which incur less than the AIA limit annually on capital expenditure. However, should a small business decide to write off the cost of qualifying plant and machinery under the schemes, rather than AIA, they will need to identify the products that qualify (via <a href="http://etl.decc.gov.uk">etl.decc.gov.uk</a>) and make a claim.</p> <p><u>Carbon emissions and wider environment impact:</u> by incentivising investment in energy and water efficient technologies, this measure should reduce carbon emissions and encourage sustainable use of water resources.</p> <p>Other impacts have been considered and none have been identified.</p>

## Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

The lists of technologies and products that qualify for the schemes are also reviewed every year by DECC in respect of the energy-saving scheme, and by Defra in respect of water. This ensures that the lists remain relevant and that qualifying criteria are discussed with suppliers to ensure they remain accurate and effective.

## Further advice

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