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

<table>
<tr><td rowspan="5">Exchequer impact (£m)</td><td></td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>Zero-emission goods vehicle</td><td>-</td><td>negligible</td><td>negligible</td><td>-£5m</td><td>negligible</td></tr>
<tr><td>Gas refuelling equipment</td><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td>Low CO_2 emission cars</td><td>-</td><td>-£5m</td><td>-£15m</td><td>-£20m</td><td>-£15m</td></tr>
<tr><td colspan="6">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.</td></tr>
</table>

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).