ECA272

The Enhanced Capital Allowance scheme for energy-saving technologies

Boost your cash flow

Enhanced Capital Allowances (ECAs) are a straightforward way for a business to improve its cash flow through accelerated tax relief.

The ECA Scheme for Energy Saving Technologies encourages businesses to invest in energy-saving plant or machinery specified on the Energy Technology List (ETL) which is managed by the Carbon Trust on behalf of Government.

The ECA scheme allows businesses to write off the whole cost of the equipment against taxable profits in the year of purchase. This can provide a cash flow boost and an incentive to invest in energy-saving equipment which normally carries a price premium when compared to less efficient alternatives. The ETL specifies the energy-saving technologies that are included in the ECA scheme.

So if your business pays corporation or income tax at 28%, every £10,000 spent on qualifying equipment would reduce its tax bill in the year of purchase by £2,800. In contrast, for every £10,000 spent, the generally available capital allowance for spending on plant and machinery[1] would reduce your business's tax bill in the year of purchase by £560. In other words, an ECA can provide a cash flow boost of £2,240 for every £10,000 it spends in the year of purchase[2].

Loss-making companies can now also realise the tax benefit of their investment in ETL qualifying technologies with Payable ECAs by surrendering losses attributable to ECAs in return for a cash payment from the Government.

The amount payable to any company claiming payable ECAs will be expressed as 19% of the loss that is surrendered. So if a company surrenders a loss of £100,000, the Payable ECA it will receive is £19,000. Payable ECAs will, however, be capped. The maximum credit claimable is limited by the total of the company's PAYE and National Insurance payments for the year in which the claim is made or, if greater, £250,000.

[1] Assuming all available Annual Investment Allowances (AIA) have been taken, the standard rate is 20% of a reducing balances scale. A company can claim ECAs in addition to AIAs, thereby increasing total available accelerated tax allowance.

[2] ECAs provide 100% tax relief, so there is no further tax relief in later years. The general rate of capital allowances does not provide 100% tax relief so there is a balance of spending to carry forward on the reducing balance basis for relief in later years.

1. Check it's on the Energy Technology List

The Energy Technology List (ETL) is comprised of two lists; the energy technology criteria list (ETCL) and energy technology product list (ETPL). The ETCL presents the energy-saving performance criteria that ECA qualifying equipment must meet. Whereas the ETPL is a register of products that have been assessed as being compliant with ETCL criteria.

Lighting equipment and pipework insulation are not listed on the ETPL. Spending on lighting equipment and pipework insulation which meets ETCL criteria can qualify for an ECA. Businesses should seek confirmation from their lighting or pipework insulation installer that the equipment complies with ETCL criteria prior to purchase.

Component based automatic monitoring and targeting (AMT) equipment and combined heat and power (CHP) equipment are also not listed on the ETPL. However, in these instances businesses are required to verify ECA compliance by having their equipment design assessed and a DECC certificate of energy-efficiency issued. Further information on how to do this can be found on the Carbon Trust website under claiming an ECA at **www.carbontrust.co.uk/eca**

For all other technologies, products are listed on the ETPL. The ETPL lists over 15,000 energy-saving products and you can check to see if your purchase qualifies by visiting **www.carbontrust.co.uk/eca**

Reduce your operating costs

Businesses are often tempted to opt for equipment with the lowest purchase cost. Such immediate cost savings often prove to be a false economy. Considering the future operating cost of the equipment before investing can help make the right investment decision - one that reduces future expense.

Investing in ETL equipment reduces operating costs. Improved energy efficiency results in lower energy bills, reduced climate change levy payments and shortens payback periods.

So the next time you're thinking about investing in plant or machinery, think about future operating costs - not lowest purchase cost - and see your utility bills fall.

2. Complete your business tax return

Capital allowances and ECAs are claimed in a business's tax return. For tax purposes, your business also needs to keep records of the purchase of plant and machinery, including energy-saving equipment.

Claiming capital allowances and ECAs is straightforward but it's worthwhile talking to your business's accountant at an early stage to let them know that your business has incurred qualifying expenditure. The accountant can let you know what records they need you to provide so that they can complete your business's tax return.

Your business can claim an ECA on the cost of qualifying equipment, transportation of the equipment to the site and for direct installation costs. For more information visit Her Majesty's Revenue and Customs website at **www.hmrc.gov.uk/manuals/camanual/CA23100.htm**

Qualified for Energy Technology List
www.eca.gov.uk
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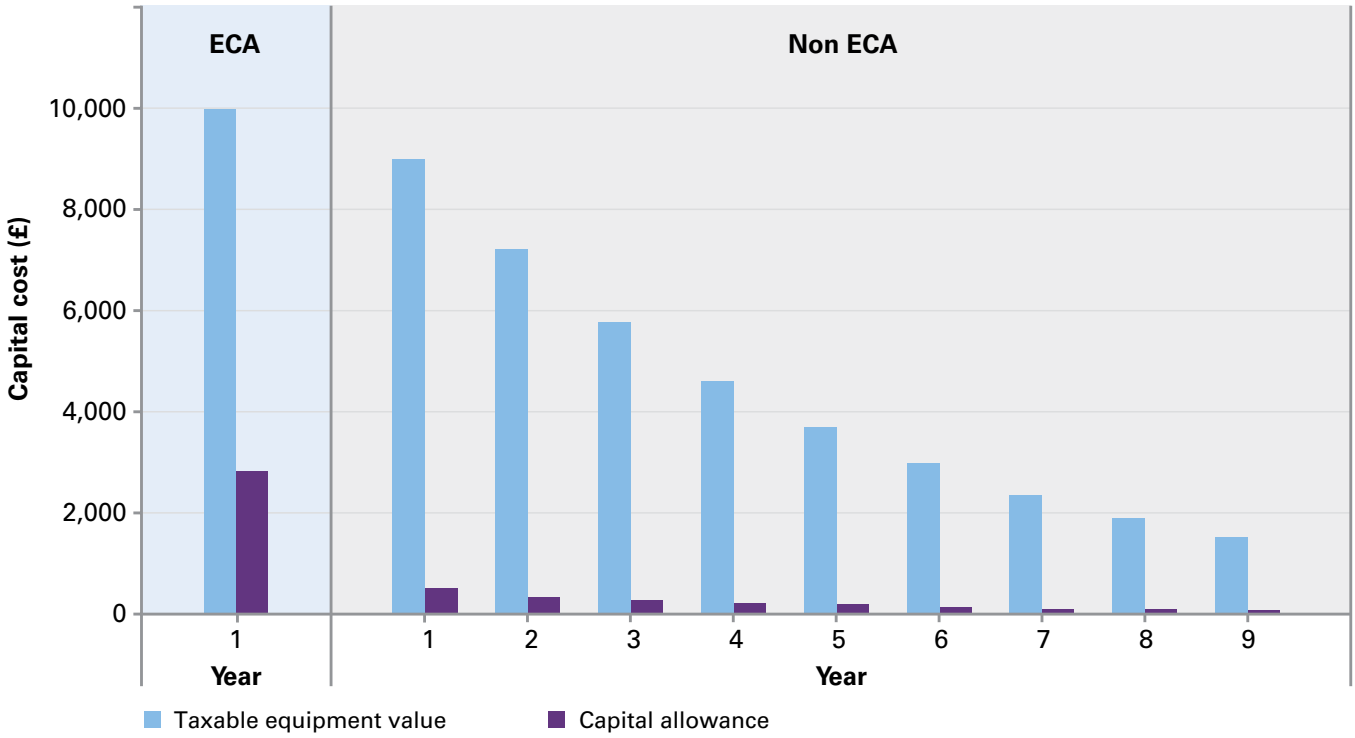
Look out for the ETL symbol when procuring new equipment. The symbol shows that a product has been independently assessed against published criteria and is on the ETPL.

Always remember to ask sales people about the ECA scheme and ETL. Does the equipment you are considering buying qualify for an ECA? Is it on the ETL?

*Comparison of the tax benefit between ETL equipment and non-ETL equipment**



* Annual Investment Allowances have not been taken into account.

3. Start saving from day one

Purchasing ETL qualifying equipment can improve cash flow and lead to cost savings more quickly than you think. Such equipment may not be as costly as you first thought.

Consider the example given, if your business had the choice of purchasing either ETL qualifying equipment that costs £10,000 or equipment that does not qualify for the ETL costing £9,000, which would you choose?

Both products provide the same basic functionality. The ETL qualifying equipment uses less energy to do the same job but has a price premium of £1,000.

Most businesses would be tempted to opt for the lowest capital cost option, however, by utilising an enhanced capital allowance the net cost to your business for the ETL qualifying equipment would be £7,200[3], whereas for the non-ETL qualifying equipment it would be £8,496[4]. In short, in this example, the ECA bridges the price premium. This means, in the year of purchase, in net cost terms, the equipment that does not qualify for the ETL is actually £1,296 more expensive.

[3] Available tax relief would be £10,000 x 100% tax relief x 28% corporate tax = £2,800. Assumes a corporate tax rate of 28%.

[4] Available tax relief, assuming no Annual Investment Allowances would be £9,000 x 20% tax relief x 28% corporate tax = £504. Assumes a corporate tax rate of 28%.

What technologies qualify?

If your business is thinking of investing in energy-saving plant or machinery then the following technologies are specified in the ETL. The ETL is periodically reviewed and technologies can be added or removed. Within each technology area there can be multiple sub-technologies.

- Air-to-air energy recovery
- Automatic monitoring and targeting (AMT)
- Boiler equipment
- Combined heat and power (CHP)
- Compressed air equipment
- Compact heat exchangers
- Heat pumps for space heating
- Heating, ventilation and air conditioning (HVAC) zone controls
- Lighting
- Motors and drives
- Pipework insulation
- Radiant and warm air heaters
- Refrigeration equipment
- Solar thermal systems
- Uninterruptible power supplies

For more information visit **www.eca.gov.uk/energy** or **www.carbontrust.co.uk/eca**

Find out more about ECAs and the ETL

Information for purchasers

For businesses with questions about the ECA scheme or the ETL please visit **www.eca.gov.uk/eca**, or contact the Carbon Trust Customer Centre on 0800 085 2005 or email customercentre@carbontrust.co.uk

For tax enquiries relating to the ECA scheme, please contact Nick Williams at HM Revenue & Customs on 020 7147 2541, or email nicholas.williams@hmrc.gsi.gov.uk or visit **www.hmrc.gov.uk/manuals/camanual/CA23100.htm**

Information for manufacturers or suppliers

Manufacturers or suppliers wishing to list products on the ETL should visit **www.eca.gov.uk/etl/partner**. Alternatively, contact the ETL Product Administrator on 0870 190 6236 or email ECAQuestions@carbontrust.co.uk

Interest free loans

The Carbon Trust offers interest free Energy-Efficiency Loans for the purchase of energy-saving equipment. Loans and ECA can be used together. Loans are a cost effective way to replace or upgrade your existing equipment with a more energy efficient version. Small and medium sized enterprises can borrow from £3,000 to £500,000* on an unsecured basis and payable over a period of up to four years. There are no arrangement fees and applying is straightforward. Go to **www.carbontrust.co.uk/loans** to find out more.

*Subject to eligibility. Regional variations apply.

The Carbon Trust is a not-for-profit company with the mission to accelerate the move to a low carbon economy. We provide specialist support to business and the public sector to help cut carbon emissions, save energy and commercialise low carbon technologies. By stimulating low carbon action we contribute to key UK goals of lower carbon emissions, the development of low carbon businesses, increased energy security and associated jobs.

We help to cut carbon emissions now by:

- Providing specialist advice and finance to help organisations cut carbon
- Setting standards for carbon reduction.

We reduce potential future carbon emissions by:

- Opening markets for low carbon technologies
- Leading industry collaborations to commercialise technologies
- Investing in early-stage low carbon companies.

www.carbontrust.co.uk

0800 085 2005

ACT ON CO_2 is the Government's initiative to help individuals understand and reduce their carbon footprint. Visit http://actonco2.direct.gov.uk for more information.

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