

The Enhanced Capital Allowance Scheme

The Enhanced Capital Allowance Scheme enables businesses to claim 100% first year capital allowances on investments in energy saving technologies and products. Businesses are now able to write off the whole cost of their investment against their taxable profits of the period during which they make the investment.

Enhanced Capital Allowances will encourage businesses to invest in low carbon technologies.

Enhanced Capital Allowances (ECAs) are a tax relief given through the tax system by reducing the taxable profits of the business. The ECA scheme builds on existing statutory provisions, under which businesses may obtain tax relief, in the form of capital allowances, for their investment in plant and machinery. Capital allowances allow the costs of capital assets to be written off against a business's taxable profits. They take the place of depreciation charged in the commercial accounts, which is not allowed for tax. The main rate of allowances for plant and machinery is 25% a year on the reducing balance basis, which spreads the benefit over a number of years (about 95% of the cost is relieved in 8 years). ECAs have been granted in other areas before but this is the first time that they have been introduced for use to support energy efficiency. ECAs enable businesses to claim 100% first-year capital allowances on their investment in designated energy-saving plant and machinery in the year in which the expenditure is incurred. ECAs bring forward relief, so that it can be set against profits of a period earlier than would otherwise be the case.

The benefit to businesses of ECAs is thus a cash flow boost resulting from the reduction of the business's tax bill of the year in which the investment is made.

Capital Allowances can be claimed on capital expenditure incurred on the provision of plant and machinery for use in a business's trade. It is a requirement of the legislation that as a result of incurring the expenditure the machinery or plant belongs to the person making the claim

How to Claim for ECAs

Claims for ECAs are made in the same way as other capital allowances on the Corporation Tax Return for companies and the Income Tax Return for individuals and partnerships. The Inland Revenue's guidance on the ECA scheme can be found at:

www.inlandrevenue.gov.uk/capital_allowances/eca_guidance.htm.

Claims must be based on the costs incurred. Where you have purchased a qualifying Product that is not already incorporated into a larger item of plant and machinery (**e.g. a heat pump**) you must use the price paid for the item as the base of your claim. If you have purchased a qualifying product, which is incorporated into a larger piece of equipment, the eligible claim value is provided in the Claim Values section of this site. The remainder of the equipment can attract capital allowances at the normal (rather than the Enhanced) rates.

The words 'on the provision of machinery or plant' in the Capital Allowances Act is interpreted narrowly and excludes remote or indirect expenditure. Some common types of cost are detailed below:

- **Direct transportation and installation costs** can be regarded as expenditure on the provision of plant or machinery. These can include, for example, the costs of transport, cranes, project management, installation, modifications to existing plant and machinery, and commissioning.
- **Professional fees** qualify only if they are directly related to the acquisition and installation of assets that are plant or machinery. Fees incurred on such things as feasibility studies or design works are generally too remote from the acquisition and installation to qualify. The eligibility of such costs is a question of fact based on the particular circumstances of the case.
- **Costs of alteration to an existing building** arising as a direct result of the installation of qualifying plant and machinery may be eligible for ECA.