

Technical Bulletin

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Subject	Enhanced Capital Allowances / Annual Investment Allowance
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Introduction

This document has been updated to reflect changes made to the **Annual Investment Allowance** and how this can be used to address the impact of new **EuP Lot 10** approved products failing to achieve ECA accreditation until September/October 2013 when the new qualifying criteria becomes effective.

All new product manufactured in the EU or imported into the EU from January 1st 2013 must comply with EuP Lot 10 which ensures an A rating for every air conditioner below 12kW. However, due to the efficiencies being measured in **SEER** (Seasonal Energy Efficiency Ratio) and **SCOP** (Seasonal Co-Efficient of Performance) some of the new product, whilst more efficient may not achieve the current efficient criteria required by The Carbon Trust.

This is because The Carbon Trust who manage ECA's (see below) are still measuring efficiencies to pre EuP Lot 10 criteria and they are unable to adopt new criteria until Autumn 2013.

In the Chancellors mini budget an increase in the Annual Investment Allowance was announced. This will allow our trade to ensure that end-users can still enjoy similar tax benefits.

Here we revisit the ECA and more importantly, the AIA.

Note that in all cases we stress that the end-user takes full advice from a qualified accountant or The Inland Revenue for full clarification. Information regarding these taxable benefits can change.

Enhanced Capital Allowances

The **Enhanced Capital Allowance** (ECA) scheme is a key part of the Government's programme to manage climate change. It provides businesses with enhanced tax relief for investments in equipment that meets published energy-saving criteria.



The Government introduced the ECA scheme in 2001 to encourage businesses to invest in low carbon, energy-saving equipment. As part of the Climate Change Levy Programme, it's designed to help the UK reach its Kyoto target of reducing carbon emissions by 20%.

The scheme provides a tax incentive to businesses that invest in equipment that meets published energy-saving criteria. The Energy Technology List (ETL) details the criteria for each type of technology, and lists those products in each category that meet them. It is managed by the Carbon Trust, on behalf of the Government

100 per cent first-year ECA's allow the full cost of an investment in designated energy-saving plant and machinery to be written off against the taxable profits of the period in which the investment is made.

A number of Hitachi Air Conditioning Products are included on this list. It is always advisable to check on the status of the product at the time of purchase as the Carbon Trust continuously strives for improved energy efficiency from its partners.

Features of the ECA scheme

- Open to all businesses that pay UK corporation or income tax, regardless of size, sector or location.
- Provides 100% first-year capital allowances on investments in energy-saving equipment against taxable profits of the period of investment.
- Capital allowances are available for spending "on the provision of" plant and machinery. This can include certain costs arising as a direct result of the installation of qualifying plant and machinery such as; transport of the equipment to the site, and some direct installation costs.

Example

Installation	=	£10,000.00
Company profits	=	£20,000.00
End-User pays tax on the difference		(£10,000.00)

At Corporation Tax of 30% this is equal to **£3,000.00** nett saving on the total project cost.

Annual Investment Allowance

Since 2008 most businesses, regardless of size, have been able to claim the **AIA (Annual Investment Allowance)** on their expenditure each year on plant and machinery (subject to certain conditions). The amount has varied, once being as high as £100,000.00 but recently reducing to £25,000.00

In January 2013, the amount business owners will be able to write off as tax-deductible capital expenditure in the year of purchase will increase from £25,000 to £250,000. This is a massive boost and far more significant than the previous government's attempt at encouraging investment amongst business owners

What is the AIA?

The AIA is a kind of capital allowance, which offers tax relief at 100 per cent on qualifying expenditure in the year of purchase. The maximum you can deduct from your taxable profits is now set to be £250,000. This pro-rates for short or long periods, and also for periods that span the operative dates and rates of allowance.

Businesses are able to claim the AIA in respect of their expenditure on both general and "special rate" plant and machinery. The AIA is effectively a **100 per cent allowance** that applies to qualifying expenditure up to an annual limit or cap.

From April 2011 the annual limit or cap is £100,000.00 although this is going to reduce to £25,000.00 from April 2012.

This is an alternative to Enhanced Capital Allowances and can be used when installing or selling a non-ECA approved product such as a new (2013) EuP Lot 10 approved system which does not currently comply with the current Carbon Trust guidelines.

This is a viable and commercial approach to dealing with end-users who are small businesses contemplating Heat Pumps but unable to meet sometimes prohibitive costs of ECA approved plant.

Some examples of AIA qualifying expenditure

<http://www.hmrc.gov.uk/manuals/camanual/ca23084.htm>

'Plant or machinery' actually covers almost every sort of asset a person may buy for the purposes of his/her business. Really the only business assets not covered are land, buildings and cars (which are excluded by one of the 'general exclusions'). Typical examples of plant or machinery include:

- computers and all kinds of office furniture and equipment
- vans, lorries, trucks, cranes and diggers
- 'integral features' of a building or structure, see [CA22320](#)

CA22320 - Plant and Machinery Allowances (PMA): buildings and structures: expenditure on integral features: definition and related provisions

<http://www.hmrc.gov.uk/manuals/camanual/CA22320.htm>

Integral features - definition

The new rules on integral features apply where a person carrying on a qualifying activity incurs expenditure on the provision or replacement of an integral feature for the purposes of that qualifying activity. Each of the following is an integral feature of a building or structure

1. an electrical system (including a lighting system),
2. a cold water system,
3. a space or water heating system, a powered system of ventilation, air cooling or air purification, and any floor or ceiling comprised in such a system,
4. a lift, an escalator or a moving walkway,
5. external solar shading

The HMRC has helpful information on their website (www.hmrc.gov.uk – search for Enhanced Capital Allowance or Enhanced Capital Allowance) and we advise that the end-user fully investigate ECA and AIA before proceeding.

Sources :

HMRC

www.growthbusiness.co.uk