

Guidance Notes on the HM Customs and Revenue Enhanced Capital Allowance (ECA)
Scheme

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

Stormsaver Ltd equipment is an accredited part of the scheme and has been approved as part of the Best Practice guidelines set out by the scheme.

It is important to note that eligibility for the scheme is subject to individual applications and Stormsaver cannot advise directly on any project as to the amount which our clients can claim for.

As a guide the criteria is as follows and more detailed information is available on the Water Technology List web site
www.eca-water.gov.uk

Whether capital allowances are available for spending on plant and machinery incurred as part of a PFI or any other project, will always depend upon the facts and circumstances of the particular scheme. There are no special rules for enhanced capital allowances for the schemes for water efficient or energy-saving technologies and PFI projects.

For spending to qualify for enhanced capital allowances it must:

- ~qualify for plant and machinery capital allowances, and
- ~it must be incurred on designated energy-saving plant and machinery, and
- ~It must be unused and not second-hand equipment.

The key conditions that must be satisfied for expenditure to be qualifying expenditure for plant and machinery capital allowances:

- ~the expenditure is capital expenditure on the provision of plant or machinery wholly or partly for the purposes of a qualifying activity (a trade, for example) that the person incurring the expenditure carries on.
- ~the person incurring the expenditure owns the plant or machinery as a result of incurring the expenditure.

The availability of capital allowances will always depend upon the precise facts and circumstances of each individual case.

The benefit of ECAs is dependent on your business having sufficient profits for the allowance to be written-off against and the rate at which your business pays tax.

Assuming that a business pays tax at the 30% corporation tax rate, in the year of investment

- Capital allowances at the generally available rate can reduce a tax bill by £7.50 for every £100 spent (with further relief on the unrelieved spending in later years)

- Enhanced capital allowances can reduce a tax bill by £30 for every £100 spent (as all the relief is given up-front, there is no unrelieved expenditure for relief in later years).

All businesses that pay UK corporation or income tax can claim ECAs on their spending on designated water-efficient equipment. Spending on water-efficient equipment for leasing can qualify for ECAs.

Organisations that are not in the charge to tax, for example local authorities, schools and non-profit organisations do not have taxable profits and do not claim tax relief, including capital allowances. However, organisations not in the charge to tax can still use the Water Technology Product List as a source of information on equipment that may save them water and thereby reduce their water bills.

There are no special rules for claiming ECAs. The allowances are claimed in the business's income or corporation tax return of the period during which the purchase is made.

ECAs can only be claimed on spending on technologies that are on the Water Technology List at the time they are purchased. If the product meets the eligibility criteria but is not included on the list it does not qualify for ECAs even if it is added to the Water Technology Product list at a later date.