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## ENHANCED CAPITAL ALLOWANCES - THE HIDDEN MINEFIELD FOR SPECIFIERS AND OWNERS

### Introduction

The Enhanced Capital Allowances (ECA) scheme for promoting expenditure on energy efficient technology in buildings, although simple in its objective, has become a minefield for specifiers and building owners, who might want to take advantage of the tax breaks available.

The system lacks certainty and where there is no certainty, mistrust and confusion can arise. Just having the good intention to invest in 'green' technology may not be enough, even with pre-planning, you could still be denied the valuable 'enhanced' tax reliefs.

Since the budget, there have been some fundamental changes to a number of key technologies. It was initially thought that these would be 'minor housekeeping', but it has transpired they are more wide ranging.

Every year the Department of Energy and Climate Change (DECC) and the Department for Environment, Food and Rural Affairs (Defra) undertake a review of the energy and water saving technologies that qualify for ECAs to ensure they are still relevant. This results in major changes being announced in the Budget, with smaller changes amending eligibility criteria, issued in the Summer. It is the extent of some of the changes not mentioned in the Budget, that has made the process of selecting equipment qualifying for ECAs more onerous.

For example let's consider packaged chillers. Currently there are 2,691 chillers listed, but 2,092 of these have been removed from the Energy Technology Product List due to the eligibility criteria being rewritten. So if you order and pay for one of those 2,092 chillers, you will now miss out on ECAs.

In May 2009, manufacturers were able to put their chillers forward again for testing to get re-listed under the new criteria. This is a process, however, that can take a number of months, which leaves those wishing to order ECA qualifying chillers at this time unable to guarantee the 100% enhanced tax relief.

This year's budget saw other amendments to the qualifying ECA technologies. One new category of uninterruptible power supplies will be added later in 2009 with two new air conditioning sub-technologies. Three existing heat pump sub-technologies will also be removed.

The importance of maximising the building content that qualifies for ECAs has never been more important. This is due to changes to the general Capital Allowances rules in April 2008, where much of the equipment qualifying for plant and machinery allowances now does so at the rate of 10%, which is a significant reduction to the previous 25% rate that applied.

The mechanical and electrical consultants who are designing and specifying building services installations have a key role to play and need to be aware of changes to the energy and water technology lists. The procurement route that is chosen will also impact on the potential for maximising ECAs. In design and build projects, the contractor may have complete flexibility over specifications and the equipment being installed, which could result in ECAs opportunities being lost.

If a client wants to maximise their tax savings on a project, it is vital that all members of the project team understand what that will mean for them. Our in-house ECA Team run start-up workshops that raise awareness of ECAs. Aimed at clients and mechanical and electrical consultants they cover all the strategic and administrative measures needed for a clients tax saving strategy.

For further advice concerning any of the issues raised in this briefing, please contact one of our key individuals detailed overpage, or alternatively call our helpline on 0800 526262. Information on other property tax related topics can also be found on our website at <http://bankingtaxfinance.davislangdon.com>.

