

R22 Phase Out – Tax Efficient Options

Businesses that depend on air conditioning, process chilling and industrial refrigeration equipment that contains R22 refrigerant have some important decisions to make to comply with current legislation. It is now illegal (from 1 January 2010) to use 'virgin' R22 refrigerant to top up existing installations. This ban will be expanded to recycled R22 from January 2015.

Introduction

The reason for this phase-out is that studies have shown that R22 and other hydrochlorofluorocarbons (HCFC) have a detrimental effect on the ozone layer. So what does this mean for businesses going forward and what are the most tax efficient options available to meet the requirements of this legislation? For existing equipment there are three options leading up to the ban in 2015, retain, modify or replace.

Retain

Firstly, businesses can retain their existing equipment and use recycled R22 to top up the system should a leak occur, or a major repair be required. There are a number of issues with this approach. The major one is that industry experts expect the availability of recycled R22 to become scarce and its price to increase. In addition, as existing equipment is being retained, businesses adopting this approach will not benefit from energy efficiencies that more modern alternatives can offer.

Retaining existing equipment, however, is only delaying the inevitable as systems using R22 will be classified as non serviceable from December 2014.

Modify

There are a number of products in the market that allow parts of an existing R22 system to be replaced with zero ozone depleting alternatives. This route can be cheaper than replacing the whole system, but will not be applicable to every situation. Key factors are the age and condition of the existing pipe work and the suitability of existing components. If this option is appropriate there are considerable benefits, not least the speed of the installation and reduced downtime, which will be key in time critical industries such as retail and manufacturing.

Replace

This option can be the most expensive if the initial capital cost is considered in isolation. There are a number of other factors that need to be considered when appraising this option, including:

- The performance and utilization of the existing R22 installation.
- 100% tax relief from ECAs on air conditioning equipment including VRF heat pumps, chillers and pipe work insulation.
- Does the business want to avoid making investment in HCFC's as part of a sustainability policy?
- How much energy could the new installation save?

Summary

Whichever route is chosen, it should only be as a result of a proactive planning process that considers the wide range of factors specific to your organisations business.

Traditionally the post tax saving is one of the factors that is not included in the appraisal process. We are now in a changing market where tax relief is an increasingly important part of the planning and decision making process.

Furthermore, since April 2008 a 19% payable tax credit has been available for loss making companies investing in the ECA qualifying equipment. This 19 pence in the pound saving can make a real difference to the viability of a project and cash flow.

In addition to the potential to claim ECAs, capital allowances will also be available where alteration works are required to an existing building to install or modify plant and machinery.

For further advice concerning any of the issues raised in this briefing please contact Robert Winters at robert.winters@davislangdon.com, or alternatively one of our other contacts shown overleaf. Information on other property tax related topics can also be found on our website at: <http://bankingtaxfinance.davislangdon.com>.

London

Paul Farey
+44 (0)20 7061 7139
paul.farey@davislangdon.com

Scotland & Wales

Michael Murray
+44 (0)131 550 9473
michael.murray@davislangdon.com

Midlands & North

Christine Weaver
+44 (0)161 819 7600
christine.weaver@davislangdon.com

South

David Rees
+44 (0)23 8068 2801
david.rees@davislangdon.com

Ireland

Lois Stirling
+44 (0)28 9024 9800
lois.stirling@davislangdon.com

Program, Cost, Consultancy

<http://bankingtaxfinance.davislangdon.com>
www.davislangdon.com
www.aecom.com

Whilst every effort has been made to ensure accuracy at time of publication, dated April 2012, information may be subject to legislative changes and may not reflect individual circumstances. Recipients should, therefore, not act on any information without seeking professional advice.