

Enhanced Capital Allowances - their value to business

There are a significant number of businesses investing in commercial property who are missing out on 100% tax relief from Enhanced Capital Allowances (ECAs). This relief is available on investment in certain energy and water efficient technologies.

ECAs were introduced in 2001 as part of the UK Government's commitment under the Kyoto Agreement to reduce UK carbon dioxide emissions.

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.

The importance of maximising the building content that qualifies for ECAs has never been more important. This is due to changes to 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% per annum, which is a significant reduction to the previous 25% rate that applied.

For every £1,000 a 26% corporation taxpayer spends on ECA qualifying equipment, their tax bill will reduce by £260 in that year. This compares with only a £26 reduction for non ECA qualifying integral features. In loss making situations a 19% payable tax credit can be applied for by companies.

Who can benefit?

Taxpayers who can benefit from ECAs include companies, individuals and partnerships in any of the categories listed below:

- Constructing buildings to hold as investments.
- Constructing or renovating buildings for their own use.
- Fitting out leased property for their own use.
- Buying an unused building from a developer.

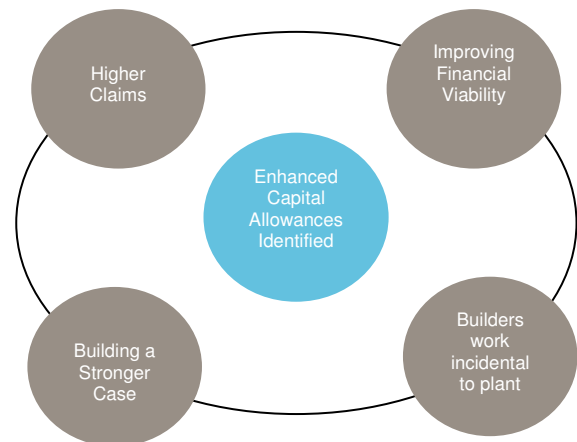
Non-resident landlords can also claim ECA's

Proactive tax planning

Research has shown that the most successful claims for ECAs are achieved when specialists are involved early in the design process. By working closely with the design and construction teams, it is possible to identify all the higher risk items of capital expenditure which could qualify for ECAs. It will,

however, be more difficult to make substitutes if the exercise is left until construction works have started on site. These items are often the ones investigated at a later stage by HM Revenue & Customs.

Design decisions will ultimately affect claim values, although such decisions should never be made purely for tax reasons. It is possible, however, to work in partnership with the architect and mechanical and electrical services consultant to achieve maximised results for tax purposes without compromising or affecting the design solution.



Why install ECA compliant technology?

- ECA compliant equipment will attract 100% first year Capital Allowances, claimable against gross operating profits in the year of expenditure.
- The recent drop to 10% for integral plant, creating a much larger differential between ordinary plant and equipment qualifying for ECAs.
- Incoming tenants are increasingly looking for energy efficient accommodation.
- 'Greener' clients and property investors are keen to demonstrate more sustainable credentials.
- There is a danger that inefficient buildings will at some point become more difficult to let.
- The more energy efficient the building design, the greater the opportunities to reduce running costs.
- ECAs are an important and expanding fiscal incentive that simply cannot be ignored when considering investment in commercial property.

Data Sheet

Enhanced Capital Allowances

Areas that need to be addressed

- Specifications need to be reviewed to ensure that they are tax efficient.
- Design of M&E services – if the system is fully designed by an M&E consultant, they need to understand how the ECA scheme operates.
- If it is the M&E sub contractor, they also need to understand what is required if the clients wants to claim ECAs
- The decision to claim ECAs should be an integral part of the development strategy.
- Levels of ECAs will be dependent on the design decisions and procurement route chosen.
- Put in place the systems for identifying and recording the costs associated with ECAs.
- Undertake the necessary research to identify and document equipment that is compliant with the legislation.
- Need to keep up to date with changes in qualifying items and technologies.
- Part of the wide carbon reduction agenda and improving energy performance.

Making a successful claim for ECAs

A claim for ECAs will only succeed if the qualifying technologies are correctly identified then verified as being listed on the ECA website and they correct paperwork is put in place to support the application. Without due care and diligence the claim may fail.

A consultant will need to take the lead on ECAs very early in the design process to ensure that all the tax efficient options are explored. This is a very important stage that is often overlooked. Davis Langdon can incorporate successful ECA planning as part of their overall service, the timing of which is crucial to both the client and the design team members.

Note: Full details of the technologies included can be viewed at <http://etl.decc.gov.uk/etl/default.htm>

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 below. Information on other property tax related topics can also be found on our website at <http://bankingtaxfinance.davislangdon.com>.

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