

Enhanced Capital Allowances: Key dates

Introduction

Many organisations are missing out on claiming valuable tax relief from Enhanced Capital Allowances (ECAs) due to a misunderstanding over key dates.

Confusion has arisen when organisations prepare retrospective reviews of a year's expenditure. Some claimants wrongly use the date the claim is made, rather than the underlying dates specified under the ECA scheme.

Since the introduction of the special rate pool in April 2008, taxpayers' cash flows have been hit hard by the reduced level of writing down allowances from Capital Allowances. This has raised the importance of claiming the more valuable reliefs such as ECAs. To successfully claim these, however, it has been and will be necessary to put in place a process, which at very least, undertakes some fundamental checks to avoid valuable tax leakage

ECAs are available on 30 energy and water saving technologies, each with their own eligibility criteria. Compliance with these criteria determines whether ECAs can be claimed on a particular piece of equipment. For some technologies this compliance results in qualifying equipment being listed on the ECA website. Others, such as lighting and pipe work insulation, require certification from either the supplier (in the case of lighting), or the installer (in the case of pipe work insulation) to support a claim.

The timing of the works and the actions of the claimant during the design, procurement, installation and payment of the equipment under question, will affect the final outcome.

For listed technologies there are two relevant dates that need to be considered, firstly, when the 'order' for the piece of equipment was placed and secondly, when the expenditure was 'incurred' (paid for).

To claim ECAs, the piece of equipment must be featured on the ECA energy technology list (ETL) at either, or both of these dates, as the list is 'live' equipment is constantly being added and removed with no prior warning of either event taking place; the following scenarios illustrate this point:

- A piece of equipment was ordered in January and appears on the ETL. It is then removed from the ETL in June and paid for in September. This piece of equipment is ECA qualifying, as it appeared on the ETL at the time of the order.

A piece of equipment was ordered in January, but did not appear on the ETL. It is then added to the ETL in June and aid for in September. This piece of equipment is ECA qualifying, as it was 'listed' when expenditure was incurred.

- A piece of equipment was ordered in January and not 'listed' at this time. It was then paid for in June and subsequently added to the ETL in September. This piece of equipment is not ECA qualifying, as it was not 'listed' at either key date; when it was ordered or when paid for.
- A piece of equipment was ordered in January and appears on the ETL. It is then paid for in September. This piece of equipment is ECA qualifying, as it was 'listed' both at the time it was ordered and when the expenditure was incurred.

The fluidity of the ETL and the need for keeping track of the two key dates can prove to be a real headache for those specifying and purchasing water and energy efficient technologies. This is most evident on projects with a long design and procurement process.

In some respects, the situation is more straight forward for non listed technologies, but only if where suppliers are engaged early. The eligibility criteria will normally be updated once a year, usually around July or August. This sets the standard for technologies over the coming year.

In order to maximise the relief from ECAs, increase certainty and to reduce the risk of disallowance, don't fall foul of the schemes' fundamental requirements. These can easily be forgotten, once construction is underway. It will only be much later that expectant clients will be turning to the benefit of enhanced reliefs, at this point it will often be too late to rectify earlier procedures.

Information on the latest eligibility criteria can be found at <http://etl.decc.gov.uk/etl/default.htm> for energy and <http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1084405879&type=PIP> for water technologies.

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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