
The Enhanced Capital Allowance scheme for energy-saving technologies

A guide to equipment eligible for Enhanced Capital Allowances



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Boost your cash flow

Enhanced Capital Allowances (ECAs) are a straightforward way for a business to improve its cash flow through accelerated tax relief.

The ECA Scheme for Energy Saving Technologies encourages businesses to invest in energy-saving plant or machinery specified on the Energy Technology List (ETL) which is managed by the Carbon Trust on behalf of Government.

The ECA scheme allows businesses to write off the whole cost of the equipment against taxable profits in the year of purchase. This can provide a cash flow boost and an incentive to invest in energy-saving equipment which normally carries a price premium when compared to less efficient alternatives. The ETL specifies the energy-saving technologies that are included in the ECA scheme.

So if your business pays corporation or income tax at 24%, every £10,000 spent on qualifying equipment would reduce its tax bill in the year of purchase by £2,400. In contrast, for every £10,000 spent, the generally available capital allowance for spending on plant and machinery¹ would reduce your business's tax bill in the year of purchase by £432. In other words, an ECA can provide a cash flow boost of £1,968 for every £10,000 it spends in the year of purchase².

Loss-making companies can now also realise the tax benefit of their investment in ETL qualifying technologies with Payable ECAs by surrendering losses attributable to ECAs in return for a cash payment from the Government.

The amount payable to any company claiming payable ECAs will be expressed as 19% of the loss that is surrendered. So if a company surrenders a loss of £100,000, the Payable ECA it will receive is £19,000. Payable ECAs will, however, be capped. The maximum credit claimable is limited by the total of the company's PAYE and National Insurance payments for the year in which the claim is made or, if greater, £250,000.

1. Check it's on the Energy Technology List

The Energy Technology List (ETL) is comprised of two lists; the Energy Technology Criteria List (ETCL) and Energy Technology Product List (ETPL). The ETCL presents the energy-saving performance criteria that ECA qualifying equipment must meet. Whereas the ETPL is a register of products that have been assessed as being compliant with ETCL criteria.

Component based Automatic Monitoring and Targeting (AMT) systems, lighting equipment and pipework insulation are not listed on the ETPL. Spending on these types of equipment which meets ETCL criteria can qualify for an ECA. Businesses should seek confirmation from their installer that the equipment complies with ETCL criteria prior to purchase.

Combined Heat and Power (CHP) equipment is also not listed on the ETPL. However, in these instance businesses are required to verify ECA compliance by having their equipment design assessed and a DECC certificate of energy-efficiency issued. Further information on how to do this can be found on the ETL website at <http://etl.decc.gov.uk/etl>

For all other technologies, products are listed on the ETPL. The ETPL lists over 13,000 energy-saving products and you can check to see if your purchase qualifies by visiting <http://etl.decc.gov.uk/etl>

¹ Assuming all available Annual Investment Allowances (AIA) have been taken and standard capital allowances are being claimed, the standard rate is 18% on a reducing balances scale. A company can claim ECAs in addition to AIAs, thereby increasing total available accelerated tax allowance.

² ECAs provide 100% tax relief, so there is no further tax relief in later years. The general rate of capital allowances does not provide 100% tax relief so there is a balance of spending to carry forward on the reducing balance basis for relief in later years.

Reduce your operating costs

Businesses are often tempted to opt for equipment with the lowest purchase cost. Such immediate cost savings often prove to be a false economy. Considering the future operating cost of the equipment before investing can help make the right investment decision – one that reduces future expense.

Investing in ETL equipment reduces operating costs. Improved energy efficiency results in lower energy bills, reduced climate change levy payments and shortens payback periods.

So the next time you're thinking about investing in plant or machinery, think about future operating costs – not lowest purchase cost – and see your utility bills fall.



2. Complete your business tax return

Capital allowances and ECAs are claimed in a business's tax return. For tax purposes, your business also needs to keep records of the purchase of plant and machinery, including energy-saving equipment.

Claiming capital allowances and ECAs is straightforward but it's worthwhile talking to your business's accountant at an early stage to let them know that your business has incurred qualifying expenditure. The accountant can let you know what records they need you to provide so that they can complete your business's tax return.

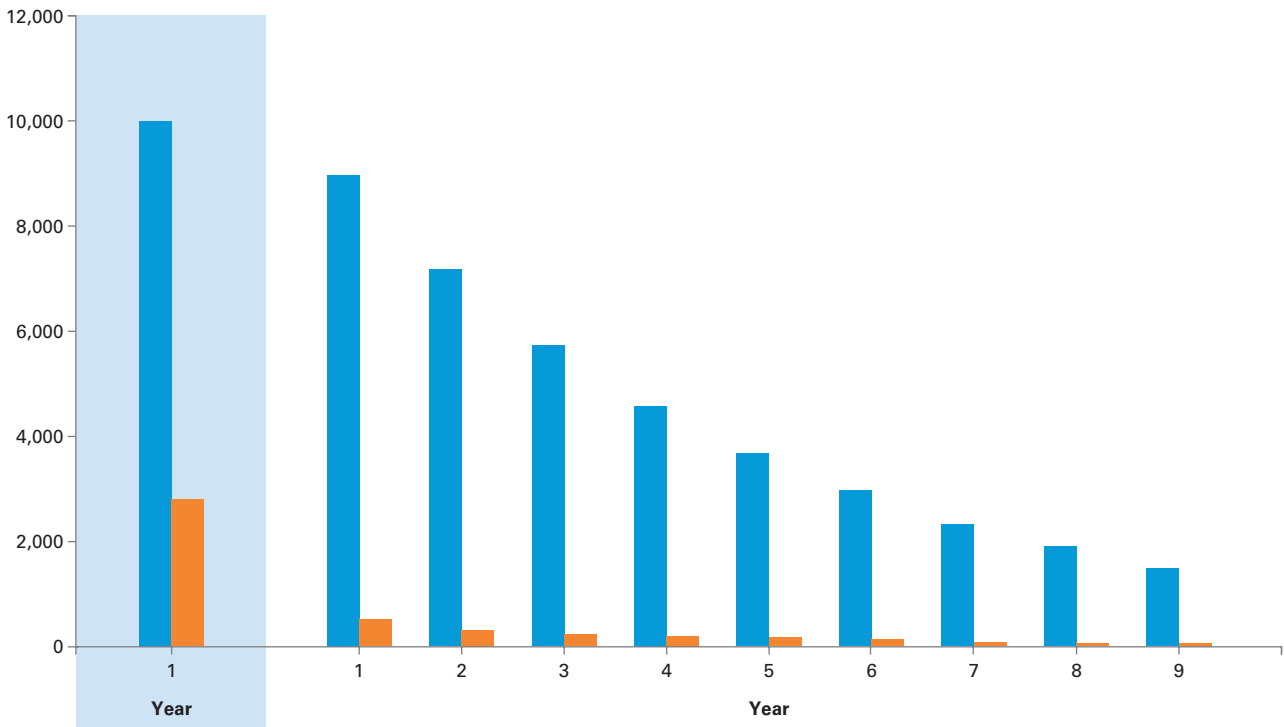
Your business can claim an ECA on the cost of qualifying equipment, transportation of the equipment to the site and direct installation costs. For more information visit Her Majesty's Revenue and Customs website at www.hmrc.gov.uk/manuals/camanual/CA23100.htm



Look out for the ETL symbol when procuring new equipment. The symbol shows that a product has been independently assessed against published criteria and is on the ETPL.

Always remember to ask sales people about the ECA scheme and ETL. Does the equipment you are considering buying qualify for an ECA? Is it on the ETL?

Figure 1 Comparison of the tax benefit between ETL equipment and non-ETL equipment*



* Annual Investment Allowances have not been taken into account.

3. Start saving from day one

Purchasing ETL qualifying equipment can improve cash flow and lead to cost savings more quickly than you think. Such equipment may not be as costly as you first thought.

Consider the example given. If your business had the choice of purchasing either ETL qualifying equipment that costs £10,000 or equipment that does not qualify for the ETL costing £9,000, which would you choose?

Both products provide the same basic functionality. The ETL qualifying equipment uses less energy to do the same job but has a price premium of £1,000.

Most businesses would be tempted to opt for the lowest capital cost option, however, by utilising an enhanced capital allowance the net cost to your business for the ETL qualifying equipment would be £7,600³, whereas for the non-ETL qualifying equipment it would be £8,612⁴. In short, in this example, the ECA bridges the price premium. This means, in the year of purchase, in net cost terms, the equipment that does not qualify for the ETL is actually £1,012 more expensive.

³ Available tax relief would be £10,000 x 100% tax relief x 24% corporate tax = £2,400. Assumes a corporate tax rate of 24%.

⁴ Available tax relief, assuming all available Annual Investment Allowances have been taken, would be £9,000 x 18% tax relief x 24% corporate tax = £388. Assumes a corporate tax rate of 24%.

What technologies qualify?

If your business is thinking of investing in energy-saving plant or machinery then the following technologies are specified in the ETL. The ETL is periodically reviewed and technologies can be added or removed. Within each technology area there can be multiple sub-technologies.

- Air-to-air energy recovery.
- Automatic monitoring and targeting (AMT).
- Boiler equipment.
- Combined heat and power (CHP).
- Compressed air equipment.
- Heat pumps for space heating.
- Heating, ventilation and air conditioning (HVAC) zone controls.
- High speed hand air dryers.
- Lighting.
- Motors and drives.
- Pipework insulation.
- Radiant and warm air heaters.
- Refrigeration equipment.
- Solar thermal systems.
- Uninterruptible power supplies.

For more information visit <http://etl.decc.gov.uk/etl>

Find out more about ECAs and the ETL

Information for purchasers

For businesses with questions about the ECA scheme or the ETL please visit <http://etl.decc.gov.uk/etl> or contact the Carbon Trust Customer Centre on 020 7170 7000 or email: info@carbontrust.com.

For tax enquiries relating to the ECA scheme, please contact Nick Williams at HM Revenue & Customs on 020 7147 2541, email: nicholas.williams@hmrc.gsi.gov.uk or visit www.hmrc.gov.uk/manuals/camanual/CA23100.htm

Information for manufacturers or suppliers

Manufacturers or suppliers wishing to list products on the ETL should visit <https://etl.decc.gov.uk/etl/partner>

Alternatively, contact the ETL Product Administrator via email: ECAQuestions@carbontrust.co.uk

Go online to get more

The Carbon Trust provides a range of tools, services and information to help you implement energy and carbon saving measures, no matter what your level of experience.

👉 Empower Savings Calculator

Calculate your organisation's potential carbon savings with our online calculator. Empower has been configured entirely around the employee, to help them see that through simple behavioural changes, their individual efforts add up to make a bigger difference. www.carbontrust.com/resources/reports/advice/empower-savings-calculator

👉 Carbon Surveys

We provide surveys to organisations in Scotland and Wales with annual energy bills of more than £30,000*. Our carbon experts will visit your premises to identify energy saving opportunities and offer practical advice on how to achieve them. www.carbontrust.com/client-services/scotland/carbon-survey-application

👉 Events and Workshops

The Carbon Trust offers a variety of events and workshops ranging from introductions to our services, to technical energy efficiency training, most of which are free in Scotland and Wales. www.carbontrust.com/about-us/events

👉 Publications

We have a library of free publications detailing energy saving techniques for a range of sectors and technologies. www.carbontrust.com/resources

👉 SME Network

An online community for SMEs with the aim of increasing the sharing of best practice between SMEs looking to reduce carbon emissions from their estate and operations. <http://smenetwork.carbontrust.com>

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- We advise businesses, governments and the public sector on their opportunities in a sustainable low carbon world

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