100% ECAs Withdrawn, but Tax Savings Still Available

As of 31 March (Corporation Tax) and 5 April 2020 (Income Tax), Enhanced Capital Allowances (ECAs) will be permanently withdrawn. The measure, announced in Philip Hammond's Autumn Budget 2018 and implemented through s.33 Finance Act (FA) 2019, was a surprise given the Government's call to improve the Nation's environmental standards. HM Treasury, HMRC and the Carbon Trust have all stressed their intention to retain and continue updating the Energy Technology and Water Technology Lists; the means by which qualifying assets were to be identified. Continuing as an important reference point for the most environmentally efficient technologies.

Background

Introduced into the Capital Allowance (CA) regime in 2001, ECAs gave 100% First-Year Allowances (FYAs) for investment in designated energy and water saving assets, enabling the full cost of the qualifying asset to be written off against taxable profits in the period of investment. Given the cost implications of investing in top of the range equipment, ECAs were to compensate investors for installing the more costly, but 'greener', technology into their properties.

Widely regarded as excessively complicated, ECAs will no longer be available after March 2020 for new expenditure. There are however still tax saving opportunities, that should not be overlooked.

ECA Claim Window

Any expenditure qualifying for ECAs up to the withdrawal dates, may still be claimed in the period the expenditure was incurred. These claims must be made within the normal tax window – effectively within two years of the period incurred.

All taxpayers must ensure that ECA qualifying expenditure has been properly and correctly assessed – or risk these accelerated allowances being lost forever. Therefore, it is important that action is taken now to preserve the cash flow benefit that the 100% FYAs deliver.

Change in Claim

Though these assets will no longer qualify for the FYA under the ECA rules, the expenditure will now revert to the more 'normal' Plant & Machinery Allowances (PMAs) or Integral Features Allowances (IFAs). Although these will change the 'timing' of the tax relief; slowing the cash flow benefit considerably.

PMAs and IFAs are both available on a reducing balance basis; at rates of 18% and 6% per annum, respectively. These allowances are offset against taxable profits across a more prolonged period than the 100% first year ECAs (Table 1).

Table 1 – Example of claim period (illustrative five years)

Allowance	Asset expenditure	Claim Year 1	Claim Year 2	Claim Year 3	Claim Year 4	Claim Year 5	**Total claimed**
ECAs	£100,000	£100,000	-	-	-	-	**£100,000**
PMAs (18%)	£100,000	£18,000	£14,760	£12,103	£9,925	£8,138	**£62,926**
IFAs (6%)	£100,000	£6,000	£5,640	£5,302	£4,984	£4,684	**£26,610**

***Note: Claim does not account for any AIA that may be available.**

Furthermore, currently taxpayers may also claim their CAs as Annual Investment Allowance (AIA), currently capped at the first £1million of expenditure. Hence there is still opportunity for significant first year tax savings – enabling a Corporation Tax payer, at 19%, to save up to £190,000 in the year of expenditure, through AIAs before considering the balance of any other allowances.

Structures and Buildings Allowance

In the majority of new projects, the Structures and Buildings Allowance (SBA) may also play a vital role in added tax relief. Introduced by The Capital Allowances (Structures and Buildings Allowances) Regulations 2019, SBAs are available on eligible construction costs incurred on or after 29 October 2018 for new non-residential structures and buildings – on a straight-line basis at 2% for 50 years (boosted to 3% for 33 ⅓ years from April 2020).

SBAs are however ***only available on expenditure not otherwise available for other forms of allowances or tax relief***. It is important therefore, to ensure an appropriate segregation of the existing project expenditures, including that of ECAs whilst they may still be claimable, as well as PMAs, IFAs, AIAs, Repairs & Maintenance, or even Land Remediation Tax Relief, as may be applicable, prior to claiming the SBAs on the residue.

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Electric Vehicle Charging Points

Expenditure on electric vehicle charging points (EVP), also benefit from 100% FYAs under s.38 FA(No2)2017, and will continue to be eligible for 100% FYAs until 31 March/5 April 2023. With the Government bringing forward the ban on the sale of petrol and diesel cars, from 2040 to 2035, this extension provides welcome relief for the considerable amounts incurred on these EVP assets to build the charging infrastructure needed.

In the last 12-18 months we have seen many more businesses investing, or discussing with us their plans to invest, in these EVPs and the necessary infrastructure upgrades. As well as the Government (Budget 2020) announcing a new five year, £500 million fund, to further accelerate the provision of the necessary charging network.

Looking Forward

Although an updated and simplified version of ECAs (or FYAs), including reform in the way ECAs were identified and claimed, may have been more satisfactory than the early withdrawal. There are still a wealth of valuable tax incentives accessible for property owners, investors, developers and occupiers.

For taxpayers to benefit from all of the available capital allowances relief and truly optimise the tax savings from their property expenditure, they will need to undertake some form of detailed analysis of their project expenditures into the different forms of allowances applicable.

Nonetheless, with the ever changing landscape as it is, delay in obtaining specialist property tax advice can significantly change how these allowances are received, and the cash flow benefits attributed. Even on historic projects, a specialist review could identify new allowances and yield a significant tax rebate – boosting cash flow – a welcome opportunity to help businesses during these exceptional times.

If have any property tax issues please do get in touch for a no obligation discussion. You can phone the team on 0345 230 6450 or email healthcheck@e3consulting.co.uk.
E3 Consulting provides specialist property tax advice to owners, investors, developers and occupiers of UK real estate from offices in Southampton and London advising on Capital Allowances, Land Remediation Relief, Repairs and Maintenance and Community Infrastructure Levy (CIL). As well as supporting with specialist advisory services for Expert Witness, Litigation or Dispute Resolution. Please see our website or twitter to keep up to date with views and technical updates on property tax matters.

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