




The Enhanced Capital Allowance

Enhance your energy efficiency
Enhance your cash flow





In 2001, the Government introduced the Enhanced Capital Allowance (ECA) to reward businesses who invest in energy saving equipment.

The benefits go straight to your bottom line

- Businesses who invest in energy efficient technologies that qualify for the Enhanced Capital Allowance can claim 100% tax relief for their investment, delivering a significant cash flow boost and shortening the payback period on the investment
- Technologies qualifying for an ECA are energy efficient which means significant long-term financial benefits in addition to the enhanced tax relief
- Investing in energy efficient technologies reduces energy costs, Climate Change Levy payments and climate change impact

Which energy efficient technologies qualify?

Equipment that qualifies for an ECA appears on the Energy Technology List at www.eca.gov.uk

This List is being expanded continually, so it's well worth checking regularly. The website also gives contact details for a number of manufacturers with qualifying equipment.

- Boilers
- Refrigeration equipment
- Thermal screens
- Lighting
- Combined Heat and Power
- Pipe insulation
- Motors
- Variable speed drives
- Heat pumps for space heating
- Solar thermal systems
- Warm air and radiant heaters
- Compressed air equipment

We're encouraging manufacturers to use the Energy Technology List logo on qualifying products being featured in advertisements and brochures – look out for it. It's your guide to energy efficient performance, improved cash flow and a reduced payback period.



What's so enhanced about the new Enhanced Capital Allowance?

Enhanced Capital Allowances are given at 100% of your expenditure in the first year.

This means you can reduce the profits for the period of the investment on which you pay tax by 100% of the expenditure incurred when buying qualifying capital equipment.

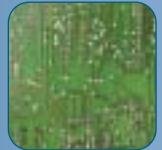
Therefore on equipment costs of £10,000, your business will reduce its taxable profit by the full £10,000.

That makes the first year saving from the ECA £3000, much greater than the standard capital allowance first year saving of only £750, a figure which goes on decreasing on the remaining balance for later years.

The table shows the benefits of the Enhanced Capital Allowance compared to the standard Capital Allowance.

The calculations in the table are for a business that pays corporation tax at 30%. Smaller businesses will pay tax at a lower rate.

	Capital Allowance	Enhanced Capital Allowance
Tax Rate	30%	30%
% of expenditure to which allowance applies	25%	100%
Equipment cost (eg automatic leak detection)	£10,000	£10,000
Taxable amount reduced by	25% of £10,000 = £2,500	100% of £10,000 = £10,000
FIRST YEAR SAVING	30% of £2,500 = £750	30% of £10,000 = £3,000
Balance brought forward to second year	£10,000 - £2,500 = £7,500	£0
Taxable amount reduced by	25% of £7,500 = £1,875	£0
SECOND YEAR SAVING	30% of £1,875 = £562.50 and so on	£0



How to claim

First check the Energy Technology List before investing in any new energy saving technology to establish that it qualifies for an ECA. You can find the list at www.eca.gov.uk

You can claim the allowance on the cost of the product, along with any costs directly associated with the provision of the product, such as installation costs. If the qualifying equipment is incorporated into a larger piece of equipment, the claim values shown at www.eca.gov.uk should be used.

Claim your ECA as part of your normal income/corporation tax return calculations – see your tax return form and accompanying notes.

Q Who can claim?

A *Businesses in the charge to income tax or corporation tax, apart from those who are leasing the assets i.e. the end-user, not the supplier or contractor. However, investments from 17 April 2002 in qualifying energy saving equipment for leasing, letting or hire can qualify for an ECA.*

Q If I have a service contract, can I claim ECA's where new machinery is installed?

A *The end-user can claim where the supplier is able to identify the investment in qualifying equipment and where the end-user has incurred capital expenditure on that equipment.*

Q Can public organisations, for example local authorities, claim?

A *No, public organisations cannot claim, because they do not pay income or corporation tax, but they can make use of the List to procure energy saving kit.*

Q What if I pay for qualifying products in instalments?

A *The normal tax rules apply, but generally you can claim the allowances as you incur the expenditure.*

To find out more, visit www.eca.gov.uk or call Action Energy free on 0800 58 57 94.

The scheme is being developed by the Inland Revenue and The Department for Environment, Food and Rural Affairs (DEFRA) and managed by the Carbon Trust.

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Capital expenditure incurred on equipment that is (a) on the Energy Technology List and Energy Technology Product List; and (b) which comprises plant and machinery for the purposes of Capital Allowances (Tax), can qualify for 100 per cent Enhanced Capital Allowances (ECAs). If you are in any doubt about whether expenditure can qualify, you must consult your tax adviser.

To qualify for the Energy Technology List and be allowed to use the Energy Technology List symbol, products and technologies must comply with energy efficiency criteria set by Government but any person makes use of the products and technologies on the list at its own risk. Neither Carbon Trust nor the Government make any warranties or representations or, to the extent permitted by law, accept any liability of any kind in relation to such products or technologies.