

How electrical contractors can benefit from the Enhanced Capital Allowance scheme



Enhanced Capital Allowances for energy technologies

Rising energy costs, increased environmental awareness and whole life costing of construction projects are making energy efficiency measures more important to the end client. Understanding Enhanced Capital Allowances (ECAs) for energy saving technologies can help you to cost effectively fulfil your client's requirements, expand your client service offering, help to retain clients and win new business.

As well as the environmental and cost benefits clients can realise as a result of electrical contractors specifying products on the Energy Technology List (ETL), there is an increasing 'moral duty' for the whole construction supply chain to reduce the environmental impact of buildings. You can play a lead role in achieving this and, with knowledge of the ECA scheme, can advise clients how to do this in cost effective ways.

Energy efficiency legislation

Energy efficiency is now a key focus in new building regulations, in particular Part L as revised in 2006, which introduced Energy Performance Certificates, Display Energy Certificates and CO₂ emissions calculations.

This legislation is driving clients to seek more energy efficient solutions for their buildings. And as information on the energy efficiency of buildings must now be available when they are sold or let, those with a higher energy efficiency rating have the potential to carry a premium sale price or rental fee.

Benefits of the ECA scheme to you

Although tax relief from ECAs is only of direct benefit to the client, there are a range of worthwhile benefits to electrical contractors from specifying ETL qualifying plant and machinery. These include:

- Gaining a competitive advantage for your business by providing cost effective, environmentally friendly solutions to your clients.
- Enhancing your business brand and green credentials by demonstrating knowledge of the ECA scheme.
- Fulfilling client expectations of the supply chain by recommending ways to minimise environmental impact while reducing purchase and operating costs.
- Providing reduced whole life costs, where maintenance and service work is also undertaken.
- Becoming part of the integrated approach to reducing the environmental impact of construction projects by helping clients to take 'cradle-to-grave' responsibility for their buildings or building improvements.



What technologies qualify?

If your client is thinking of investing in new plant or machinery, encourage them to consider the energy saving alternatives. The technologies presented below are supported by the ECA scheme (i.e. listed on the ETL). The ETL is periodically reviewed and technologies may 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)
- Compact heat exchangers
- Compressed air equipment
- Heat pumps for space heating
- Heating, ventilation and air conditioning (HVAC) zone controls
- Lighting
- Motors and drives
- Pipework insulation
- Radiant and warm air heaters
- Refrigeration equipment
- Solar thermal systems
- Uninterruptible power supply

To check the eligibility criteria for these technologies, visit www.carbontrust.co.uk/eca or www.eca.gov.uk/energy, or refer to the Carbon Trust leaflet [ECA272 The Enhanced Capital Allowance scheme for energy saving technologies](#).



Find out more about ECAs and the ETL

Information for purchasers

For businesses with questions about the ECA scheme or the ETL please visit www.eca.gov.uk/energy, or contact the Carbon Trust Customer Centre on 0800 085 2005 or email customercentre@carbontrust.co.uk

For tax enquiries relating to the ECA scheme, please contact Nick Williams at HM Revenue & Customs on 020 7147 2541, or email nicholas.williams@hmrc.gsi.gov.uk or visit www.hmrc.gov.uk/manuals/camanual/CA20000.htm

Information for manufacturers or suppliers

Manufacturers or suppliers wishing to list products on the ETL should visit www.eca.gov.uk/etl/partner. Alternatively, contact the ETL Product Administrator on 0870 190 6236 or email ECAQuestions@carbontrust.co.uk

Interest free loans

The Carbon Trust offers interest free Energy-Efficiency Loans for the purchase of energy-saving equipment. Loans and ECA can be used together. Loans are a cost effective way to replace or upgrade your existing equipment with a more energy efficient version. Small and medium sized enterprises can borrow from £3,000 to £400,000* on an unsecured basis and payable over a period of up to four years. There are no arrangement fees and applying is straightforward. Go to www.carbontrust.co.uk/loans to find out more.

*Subject to eligibility. Regional variations apply.

How do your customers save money?

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 often carries a higher initial cost but lower whole life cost when compared to less efficient alternatives.

So if your business pays corporation tax at 28%, every £10,000 spent on ECA qualifying equipment would reduce the tax bill corresponding to the year of purchase by £2,800. In contrast, for every £10,000 spent, the generally available capital allowance for spending on plant and machinery¹ would reduce your business' tax bill corresponding to the year of purchase by £560. This means that an ECA can provide a cash

flow boost of £2,240 for every £10,000 a business spends in the year of purchase².

Loss-making businesses can now also realise the tax benefit of their investment in ECA 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 business claiming payable ECAs is expressed as 19% of the loss that is surrendered. So if a business surrenders a loss of £100,000, the payable ECA it will receive is £19,000. Payable ECAs are capped. The maximum credit claimable is limited by the total of a business's PAYE and National Insurance payments for the year in which the claim is made or, if greater, £250,000.

Table 1 The cash flow boost to your business of ECA over a capital allowance for a capital investment of £10,000

	Year								
	1	2	3	4	5	6	7	8	9
Capital expenditure	10,000	8,000	6,400	5,120	4,096	3,277	2,621	2,097	1,678
Capital allowance (CA) @ 20%	2,000	1,600	1,280	1,024	819	655	524	419	336
CA tax allowance	560	448	358	287	229	184	147	117	94
ECA @ 100%	10,000	0	0	0	0	0	0	0	0
ECA tax allowance	2,800	0	0	0	0	0	0	0	0

The above calculations are based on 28% corporation tax

¹ 20% a year on the reducing balance basis.

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.

Benefits of the ECA scheme to your clients

Specifying equipment eligible for ECAs will enable you to offer a better service to your clients, enabling them to realise the following benefits:

A better bottom line

With 100% first year tax relief in the year of purchase and lower energy bills (including Climate Change Levy payments), businesses can realise upfront and annual cost savings that improve their bottom line. Such savings also ensure a shorter investment payback period. Clients could claim cash-back tax credits instead of the 100% tax relief when their business is trading at a loss.

Increased competitiveness

Using products from the ETL leads to reduced annual operating costs and can improve staff motivation and productivity.

Environmental benefits

Using energy efficient products can reduce your client's

carbon footprint and help fulfil corporate social responsibility (CSR) goals.

Regulatory compliance

Energy efficiency is becoming an important factor in meeting legal requirements. The Part L Building Regulations (2006), Energy Performance of Buildings Directive (EPBD), Energy-Using Products (EuP) Directive, Simplified Building Energy Model (SBEM) calculations and the Climate Change Levy all impose specific energy efficiency requirements. The amount of legislation reinforces the importance of successfully managing building energy efficiency.

Quality benefits

Energy efficiency is an important factor in accreditation to environmental management systems such as ISO14001. The use of the most energy efficient, appropriate, products will contribute significantly towards this achievement.

Claiming an ECA

Capital allowances and ECAs are claimed as part of a business' tax return. For tax purposes, businesses need to keep records of the purchase of plant and machinery, including energy saving equipment. It is helpful for electrical contractors to provide a breakdown of the cost of any ECA qualifying products installed to make it easier for clients to make a claim. This should cover:

- qualifying equipment
- direct installation costs
- transportation of the equipment to the site.

If you are currently working for a client and you think some of the installation may qualify for an ECA, take a look at www.eca.gov.uk/energy.

The best advice you can give clients is to talk to their business accountant at an early stage to let them know that the business will incur qualifying expenditure. Their accountant will let them know what records need to be provided in order to complete the business' tax return.

It is important for your clients to retain all documents relating to their ECA claim, including invoices, dated screen prints from the ECA website and any information provided by the installation contractor. HM Revenue and Customs (HMRC) may investigate any aspect of a tax return and your clients should have all necessary evidence to hand to support their claim.

For more information visit the HMRC website at www.hmrc.gov.uk/manuals/camanual/Index.htm



Interest-free loans for energy saving equipment

We can now lend your customers as much as £400,000 or as little as £3,000 to undertake energy saving projects that reduce their energy costs.

And as well as offering loans to SMEs, we can now also offer loans to any business with an energy spend of less than ~£500,000.*

In today's economic climate, it may be difficult for your clients to get the credit they need to upgrade to more energy efficient equipment. Our loans could be the solution. They not only offer interest-free credit to help make your clients more efficient, they also help them lower their energy bills and cut carbon emissions.

The Carbon Trust's Energy-Efficiency Loans are unsecured and interest-free, with no arrangement fees and a straightforward application process. Loans can be repaid over a period of up to four years, and many of our borrowers have found that their energy savings more than cover their repayments.

* Conditions apply. See www.carbontrust.co.uk/eca

The Carbon Trust was set up by Government in 2001 as an independent company.

The Carbon Trust's mission is to accelerate the move to a low carbon economy, by working with organisations to reduce carbon emissions now and develop commercial low carbon technologies for the future.

We cut carbon emissions now

- By providing business and the public sector with expert advice, finance and accreditation.
- By stimulating demand for low carbon products and services.

We cut future carbon emissions

- By developing new low carbon technologies through project funding and management, investment and collaboration.
- By identifying market barriers and practical ways to overcome them.

www.carbontrust.co.uk

0800 085 2005



ACT ON CO₂ is the Government's initiative to help individuals understand and reduce their carbon footprint. Visit <http://actonco2.direct.gov.uk> for more information.

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