EXPLANATORY MEMORANDUM TO

THE CAPITAL ALLOWANCES (DESIGNATED ASSISTED AREAS) ORDER 2015

2015 No. 2047

1. Introduction

1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue & Customs and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This Order formally designates those assisted areas within an enterprise zone ("EZ") in which expenditure incurred on plant and machinery may qualify for 100 per cent first-year capital allowances, known as Enhanced Capital Allowances (ECAs).

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None

Other matters of interest to the House of Commons

3.2 As this instrument is subject to the negative procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

4.1 This Order is made under sections 45K(2)(a), (3) and (4) Capital Allowances Act 2001 ("CAA 2001"). This is the second Order to be made under these powers. The first order was the Capital Allowances (Designated Assisted Areas) Order 2014 (S.I. 2014/3183).

4.2 Schedule 11 to Finance Act 2012 introduced new sections 45K to 45N into CAA 2001 and provided for 100 per cent ECAs for companies investing in plant or machinery for use primarily in designated assisted areas within EZs. This Order is required to formally designate those assisted areas in which expenditure may qualify for relief.

5. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The Territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

7.1 The government announced at Budget 2011 that it would introduce EZs which would feature a number of benefits for business, including simplified planning rules and business rate discounts. The Government also announced it would introduce ECAs for expenditure on plant and machinery in certain designated areas within EZs. These measures were enacted in Finance Act 2012.

7.2 100 per cent ECAs are designed to encourage investment by capital intensive companies in designated areas within EZs. To qualify for the relief, the expenditure must be incurred in the period from when an area is treated as being a designated assisted area to 31 March 2020, when the relief is designed to end.

7.3 Because ECAs are targeted at certain areas, they are a regional State aid and have been designed to comply with the European Commission's General Block Exemption Regulation, ***EC Regulation No 800/2008***.

7.4 In order to identify those areas within the assisted areas that should be included in the scheme, the Treasury wrote to Local Enterprise Partnerships in England (these are voluntary partnerships between local authorities and business) and the devolved administrations in Northern Ireland, Scotland and Wales outlining the scheme and the criteria against which applications for inclusion would be considered.

7.5 Maps delineating these areas can be found at https://www.gov.uk/government/publications/enterprise-zones

8. Consultation outcome

8.1 The qualifying EZ sites have been designated on merit following a bidding process based on proposals submitted by local enterprise partnerships in England and the devolved administrations.

9. Guidance

9.1 Guidance will be updated as appropriate. Precise details of the designated assisted areas are available from HM Treasury.

10. Impact

10.1 ECAs in EZ support business growth by offering an incentive for businesses to carry out major investments. This order simply clarifies in legislation the areas where ECAs are available.

10.2 There is no impact on the public sector and the impact on charities and voluntary bodies is negligible.

10.3 A Tax Information and Impact Note covering EZ was published on 29 November 2011 and is available on GOV.UK at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192108/capital_allowance_enterprise_zones.pdf

10.4 A second Tax Information and Impact Note covering the extension of EZ to 2020 was published on 19 March 2014 and is available on GOV.UK at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293825

/TIIN_8091_enterprise_zones_enhanced_capital_allowances.pdf. Both TIINs remain accurate summaries of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation applies to activities that are undertaken by small businesses.

11.2 No specific action is proposed to minimise regulatory burdens on small businesses.

12. Monitoring & review

12.1 The measure will be monitored and assessed alongside other measures in the Government's package for EZs.

13. Contact

13.1 Tunde Ojetola at HM Revenue and Customs Telephone: 03000 585 916 or email: tunde.ojetola@hmrc.gsi.gov.uk can answer any queries regarding the instrument.