EXPLANATORY MEMORANDUM TO

THE CAPITAL ALLOWANCES (ENVIRONMENTALLY BENEFICIAL PLANT AND MACHINERY) (AMENDMENT) ORDER 2015

2015 No. 1509

1. This Explanatory Memorandum has been prepared by Her Majesty's Revenue and Customs ("HMRC") and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

This instrument amends the Capital Allowances (Environmentally Beneficial Plant and Machinery) Order 2003 (S.I. 2003/2076; "the principal Order").

The effect is that from 4 August 2015, the revised lists of qualifying technologies and products dated 28 June 2015 and issued by the Secretary of State for the Environment, Food and Rural Affairs ("the Secretary of State") on 7 July 2015 have statutory effect for the purposes of 100 per cent first year capital allowances for expenditure on qualifying environmentally beneficial plant and machinery technologies: the enhanced capital allowances scheme for environmentally beneficial technologies ("the ECA scheme").

3. Matters of special interest to the Select Committee on Statutory Instruments

None.

4. Legislative Context

4.1 Sections 45H to 45J of the Capital Allowances Act 2001 contain the provisions relating to the ECA scheme.

4.2 Section 45H(1) provides that qualifying expenditure is expenditure on environmentally beneficial plant or machinery. Sections 45H(2) and (3) define what is meant by environmentally beneficial plant and machinery. It is plant and machinery that is of a description specified by Treasury order and meeting the environmentally beneficial criteria specified by Treasury order. Section 45H(5) provides that the Treasury can specify the descriptions and criteria by reference to any technology list issued by the Secretary of State.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

7. Policy Background

7.1 The Government is committed to protecting the environment and conserving natural resources whilst continuing to ensure the competitiveness of

UK industry. The Government believes that environmental taxes and other economic instruments will continue to be key policy tools for achieving environmental improvements.

7.2 The ECA scheme enables a business to claim accelerated tax relief on expenditure on qualifying water efficient technologies. The cash-flow benefit of accelerated tax relief can encourage businesses to invest in technologies that reduce water use and improve water quality. The scheme is dynamic with the detailed environmentally beneficial criteria and qualifying technologies being reviewed annually.

7.3 The current qualifying technologies and products for the ECA scheme are published in lists issued by the Secretary of State on 1 July 2014. These lists are given statutory effect, for the purposes of the ECA scheme, by S.I. 2014/1869, which amended the principal Order.

7.4 This instrument gives statutory effect, for the purposes of the ECA scheme, to a revised list of technologies and products that qualify for the scheme dated 28 June 2015 and issued by the Secretary of State on 7 July 2015.

7.5 The new lists clarify the qualifying criteria for a number of technologies and to incorporate changes in technical standards. The revised lists for the ECA scheme are available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442517/water-technology-product-list-2015.pdf

8. Consultation outcome

Although no formal consultation has taken place, a series of informal discussions are held annually with industry to establish market trends and developments. The technologies and the products included in the qualifying lists are reviewed every year by the Secretary of State. This ensures that they are still relevant. The wording of the qualifying criteria is discussed with suppliers to ensure that it is practicable.

9. Guidance

Relevant guidance will be updated as appropriate as part of the normal process of review.

10. Impact

10.1 The impact on business, charities or voluntary bodies is considered negligible.

10.2 No impact on the public sector is foreseen, based on historic transactions.

10.3 A Tax Information and Note covering this instrument was published on 15 July 2015 and is available on the HMRC website at https://www.gov.uk/government/collections/budget-2015-hm-revenue-and-customs#tax-information-and-impact-notes-tiins. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 The ECA scheme is primarily designed to improve the cash flow of those businesses that purchase qualifying products, because it allows the full cost of an investment in designated environmentally beneficial plant and machinery to be written off against the taxable profits of the period in which the investment is made. In practice the scheme only affects those businesses with qualifying plant and machinery expenditure above the Annual Investment Allowance, which for the period 1 April 2013 to 31 December 2015 has been temporarily increased from £250,000 to £500,000.

11.3 Following the Secretary of State's annual consultation about the focus of the ECA scheme and publication of the revised lists of technologies and products, HM Treasury are required to update the ECA scheme to ensure that those lists have legal effect for tax purposes.

12. Monitoring and review

The lists of technologies and products that qualify for the ECA scheme are reviewed every year by the Secretary of State to ensure that they are still relevant, and the wording of the qualifying criteria discussed with suppliers to ensure that it is practicable.

13. Contact

Tunde Ojetola at HM Revenue & Customs (tel: 03000 585916; e-mail: tunde.ojetola@hmrc.gsi.gov.uk) can answer any queries about the instrument.