These notes refer to the Finance Act 2015 (c.11)
which received Royal Assent on 26 March 2015

FINANCE ACT 2015

EXPLANATORY NOTES

INTRODUCTION

Section 45: Zero-Emission Goods Vehicles

Summary

1. This section extends the Enhanced Capital Allowances (ECA) scheme for expenditure on zero-emission goods vehicles to 5 April 2018. It was due to end on 31 March 2015 for corporation tax and 5 April 2015 for income tax. It also provides that no allowances are to be made if another State aid is received towards qualifying expenditure. This ECA is a State aid designed to comply with the environmental protection section of the General Block Exemption Regulation no. 651/2014 (GBER). Section 45DB ensures that the rules set out in the GBER are met. The amendments made at subsections (3) to (8) ensure continued compliance with the GBER.

Details of the Section

2. Subsection (1) provides that sections of the Capital Allowances Act 2001 are amended.

3. Subsection (2) amends section 45DA(1)(a) to extend the scheme to 2018, with effect on and after the date of Royal Assent to Finance Act 2015.

4. Subsection (3) amends section 45DB.

5. Subsections (4), (5) and (6) delete various words and phrases.

6. Subsection (7) adds a new subsection 45DB(11A). The effect is to provide that any reference to State aid in the section is to be read widely to include all State aid, and not just aid notified to or approved by the European Commission.

7. Subsections (8) and (9) provide that the ECA is not available, or will be withdrawn, where:

   - qualifying expenditure has been incurred on or after 1 April 2015 for corporation tax or on or after 6 April 2015 for income tax and a grant that is a State aid is also received on or after 1/6 April 2015;

   - qualifying expenditure has been incurred on or before 31 March 2015 for corporation tax and 5 April 2015 for income tax, and a grant that is a State aid is received on or after 1/6 April 2015; and

   - qualifying expenditure has been incurred on or after 1 or 6 April 2015, and a grant that is a State aid is received on or before 31 March/5 April 2015.

8. In essence a decision has to be made whether to claim ECA or receive a grant, or other payment, that is a State aid.

Background Note

9. Capital allowances allow the cost of capital assets to be written off against taxable profits. They take the place of depreciation charged in the commercial accounts, which is not allowed for tax. The main rate of capital allowances is currently 18 % per year on a reducing balance basis.

10. ECAs (properly called first-year allowances) are available for expenditure on certain types of plant or machinery. ECAs accelerate the rate at which tax relief is available for capital spending and allow a greater proportion of the cost of an investment to qualify for tax relief against a business's taxable profits of the period in which the investment is made. ECAs provide business with a valuable tax-timing benefit.

11. 100% ECAs for expenditure on zero-emission good vehicles were introduced in 2010. It is one of a number of measures designed to help businesses reduce their CO_2 emissions and to encourage a shift to cleaner goods vehicles. The government announced at Budget 2014 that the scheme would be extended for further three years to 2018 when the existing scheme ends in 2015.

12. The ECA for zero-emission goods vehicles is a State aid and has been designed to comply with the GBER. The GBER exempts certain State aid measures from prior notification to the European Commission if various conditions are met. This section includes a provision designed to ensure that the ECA remains fully compliant with the GBER rules about the cumulation of State aid, i.e. ensure that the maximum amount of aid that can be received for purchases of qualifying goods vehicles cannot be exceeded. It does this by ensuring that businesses can only claim the ECA or another State aid but not both.