

**EXPLANATORY MEMORANDUM FOR THE CAPITAL ALLOWANCES
(ENVIRONMENTALLY BENEFICIAL PLANT AND MACHINERY)
(AMENDMENT) ORDER 2004**

STATUTORY INSTRUMENT 2004 No.2094

5th August 2004

Purpose of the instrument

This Treasury Order gives statutory effect for the purposes of 100 per cent first-year enhanced capital allowances (ECA) for water-efficient technology, to the revised lists of qualifying technologies issued by Secretary of State for the Department of Environment Food and Rural Affairs (Defra) on 13 July 2004.

Businesses can claim 100 per cent first-year ECAs on their spending on designated water-efficient technology. The ECA scheme is dynamic with further technologies being added and the detailed water-efficiency criteria being reviewed on an annual basis. The current qualifying technologies are published in lists issued by Defra on 30 July 2003. These lists are given statutory effect from 11 August 2003 by Treasury Order 2003 No. 2076.

The new lists issued by Defra on 13 July 2004 include 1 additional technology.

Underlying policy objective

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.

The ECA scheme enables a business to claim accelerated tax relief on its spending on designated water energy-saving technology. 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 qualifying technologies being reviewed annually.

Legislative background

Clause 167 and Schedule 30 of Finance Act 2003 introduced the rules for the ECA scheme for environmentally beneficial technology. It amended the Capital Allowances Act 2001 including new sections 45H, 45I and 45J.

Section 45H(1) provides that expenditure is qualifying spending if it is on environmentally beneficial plant or machinery. Section 45H(2) and (3) define what is meant by environmentally beneficial plant or machinery. It is plant and machinery that is of a description specified by Treasury Order and meeting the water-efficiency criteria specified by Treasury Order. Section 45H(4) provides that the Treasury can make Orders to promote the use of technologies to remedy or prevent damage to the environment. Section 45H(5) deal with the descriptions and criteria by reference to any technology list published by the Secretary of State.