

EXPLANATORY MEMORANDUM TO
THE CAPITAL ALLOWANCES (ENVIRONMENTALLY BENEFICIAL
PLANT AND MACHINERY) (AMENDMENT) ORDER 2011

2011 No. 2220

1. This Explanatory Memorandum has been prepared by Her Majesty's Revenue & Customs on behalf of the Treasury and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

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 1st October 2011, the revised lists of qualifying technologies and products issued by the Secretary of State for Environment, Food and Rural Affairs on 2nd September 2011 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 (ECA) scheme for environmentally beneficial technologies".

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 (CAA) contain the provisions relating to the ECA scheme for environmentally beneficial technologies.

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 published by the Secretary of State [for Environment, Food and Rural Affairs].

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

- *What is being done and why*

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 for environmentally beneficial technologies 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 28 September 2010. These lists are given statutory effect, for the purposes of the ECA scheme, by S.I. 2010/2483, which amended the principal Order.

7.4 This instrument gives statutory effect, for the purposes of the ECA scheme, to a revised list of products that qualify for the scheme issued by the Secretary of State on 2nd September 2011. This new list incorporates within the scheme new products that have been formally accepted for inclusion over the last year.

7.5 The new list for the ECA scheme for environmentally beneficial technologies is available at www.businesslink.gov.uk.

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 for Environment, Food and Rural Affairs. This ensures that they are still relevant. The wording of the qualifying criteria is discussed with suppliers to ensure that it is achievable.

9. Guidance

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

10. Impact

10.1 An Impact Assessment has not been produced for this instrument as the change is administrative, having a negligible impact on business, charities or voluntary bodies.

10.2 No impact on the public sector is foreseen.

10.3 In line with government commitments, a Tax Information and Impact Note has not been prepared for this instrument as it gives effect to an administrative update of the list of products that qualify for the scheme.

11. Regulating small business

This ECA scheme for environmentally beneficial technologies 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. As such the legislation applies to small businesses. Along with the Annual Investment Allowance, that was introduced from April 2008, this will also help reduce their administrative burdens and compliance costs.

12. Monitoring and review

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

13. Contact

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