EXPLANATORY MEMORANDUM TO

THE CAPITAL ALLOWANCES ACT 2001 (EXTENSION OF FIRST-YEAR ALLOWANCES) (AMENDMENT) ORDER 2015

2015 No. 60

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 instrument

The 100 percent first-year allowances (enhanced capital allowances or 'ECAs') for low CO_2 emission cars and gas refuelling equipment expire on 31 March 2015. This instrument extends that period to 31 March 2018. In the case of cars, it also amends the qualifying emission threshold from 95 grams per kilometre driven to 75 grams per kilometre driven.

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

None.

4. Legislative Context

4.1 Section 45D of the Capital Allowances Act 2001 contains the provisions relating to the ECA scheme for low CO_2 emission cars.

4.2 Section 45D(1)(a) provides that the scheme ends on 31 March 2015. Section 45D(4) provides that cars must emit 95 grams of CO_2 or less to qualify.

4.3 Section 45D(1A) provides the power to enable the Treasury to extend the period in which the relevant first-year expenditure must be incurred. Section 45D(7) provides that the Treasury may amend the qualifying CO_2 threshold. This Order extends the period ending from 31 March 2015 to 31 March 2018. It also amends the qualifying CO_2 threshold to 75 grams.

4.4 Section 45E contains the provisions relating to the ECA scheme for gas refuelling equipment. Section 45E(1)(a) provides that the scheme ends on 31 March 2015. Section 45E(1A) provides the power to enable the Treasury to extend the period in which the relevant first-year expenditure must be incurred. This Order extends the period ending from 31 March 2015 to 31 March 2018.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Financial Secretary to HM Treasury has made the following statement regarding Human Rights:

In our view the provisions of the Capital Allowances Act 2001 (Extension of first-year allowances) (Amendment) Order 2015 are compatible with the Convention rights.

7. Policy Background

7.1 These time-limited schemes are part of a range of measures to encourage the reduction in the UK's carbon emissions, and were introduced in 2002. The schemes, which have been extended a number of times, enable a business to claim accelerated tax relief on its spending on qualifying low emission cars and gas refuelling equipment. They are designed to encourage all businesses to invest in low-emission forms of transport and reduce their carbon footprint by improving their cash flow.

7.2 As cars have become more efficient and to ensure that the first-year allowance remains effectively targeted, the qualifying emissions threshold has been updated to ensure that only the cleanest cars qualify. This provides an incentive for both manufacturers to target their research and development towards emissions reductions, and for car buyers to adapt their purchasing behaviour.

8. Consultation outcome

The Government does not generally consult on legislation containing straightforward technical changes. The relevant Tax Information and Note was published on 10 December 2014 as part of the consultation process for Finance Bill 2015 clauses and other tax updates.

9. Guidance

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

10. Impact

A Tax Information and Note covering this instrument is published at:

https://www.gov.uk/government/publications/capital-allowances-extension-of-enhanced-capital-allowances-for-car-and-goods-vehicles-to-2018

11. Regulating small business

11.1 The legislation applies to small business.

11.2 The schemes are primarily designed to improve the cashflow of those businesses that purchase qualifying products, because it allows the full cost of a qualifying investment to be written off against the taxable profits of the period in which the investment is made.

12. Monitoring and review

Take-up and costs of these reliefs will be kept under review by regular monitoring of car sales and other available data.

13. Contact

Arun Arul at HM Revenue & Customs (tel: 03000 584720; e-mail: arun.arul@hmrc.gsi.gov.uk) can answer any queries about the instrument.