

**EXPLANATORY MEMORANDUM TO THE
CAPITAL ALLOWANCES (ENERGY-SAVING PLANT AND MACHINERY)
(AMENDMENT) ORDER 2005**

2005 No. 2424

- 1.** This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue & Customs 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. Description**

These Regulations amend The Capital Allowances (Energy-saving Plant and Machinery) Order 2001. The effect is that from 22nd September 2005, the revised lists of qualifying technologies issued by the Secretary of State for the Department of Environment Food and Rural Affairs (Defra) on 18 July 2005 have statutory effect for the purposes of 100 per cent first-year enhanced capital allowances (ECA) for energy-saving technology.

- 3. Matters of special interest to the Joint Committee on Statutory Instruments**

None.

- 4. Legislative Background**

4.1 Clause 65 and Schedule 17 of Finance Act 2001 introduced the rules for the ECA scheme for energy-saving technology. It amended the Capital Allowances Act 2001 including new sections 45A, 45B and 45C.

4.2 Section 45A(1) provides that expenditure is qualifying spending if it is on energy-saving plant or machinery. Section 45A(2) and (3) define what is meant by energy-saving plant and machinery. It is plant and machinery that is of a description specified by Treasury Order and meeting the energy-saving criteria specified by Treasury Order. Section 45A(4) provides that the Treasury Order can deal with the descriptions and criteria by reference to any technology list published by the Secretary of State.

- 5. Extent**

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

These Regulations are subject to annulment and do not amend primary legislation. Accordingly no statement as to compliance with the Convention rights is required.

7. Policy Background

- 7.1 Under the Kyoto protocol the UK is committed to reducing greenhouse gas emissions to 12.5 per cent below 1990 levels between 2008 and 2012 helping the EU to meet its target. The UK also has a more demanding domestic target of a 20 per cent reduction in carbon dioxide emissions by 2010. 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 designated energy-saving technology is one of the range of measures to encourage the reduction in the UK's carbon emissions. The scheme enables a business to claim accelerated tax relief on its spending on designated energy-saving technology. The cash-flow benefit of accelerated tax relief can encourage businesses to invest in energy-saving equipment that can reduce their energy use, their energy bills and their payments under the Climate Change Levy. The scheme is dynamic with the qualifying technologies being reviewed annually.
- 7.3 Businesses can claim 100 per cent first-year ECAs on their spending on designated energy-saving technology. The ECA scheme is dynamic with further technologies being added and the detailed energy-saving criteria being reviewed on an annual basis. The current qualifying technologies are published in lists issued by the Defra on 16 July 2004. These lists are given statutory effect by Treasury Order 2004 No. 2093.
- 7.4 This Treasury Order gives statutory effect for the purposes of 100 per cent first-year enhanced capital allowances (ECA) for energy-saving technology, to the revised lists of qualifying technologies issued by Secretary of State for the Department of Environment Food and Rural Affairs (Defra) on 18 July 2005.
- 7.5 The new lists issued by Defra on 18 July 2005 update and clarify the qualifying criteria for some of the qualifying technologies: heat pumps, boilers (condensate recovery and return, burners with controls and retrofit burners with controls), refrigeration (refrigeration controls) and motors (single speed motors) and include claim values for air-to-air energy recovery equipment, heating, ventilation and air conditioning controls and warm air and radiant heating. The lists are available on the website for the energy-saving ECA scheme www.eca.gov.uk.

8. Impact

A Regulatory Impact Assessment has not been prepared for this instrument.

9. Contact

Paul Thomas at HM Revenue & Customs (tel: 020 7147 24541, e-mail: paul.thomas@hmrc.gsi.gov.uk) can answer any queries about the instrument.