

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 64: Extension of Capital Allowances

Summary

1. This section gives the Treasury the power to extend by Treasury Order the duration of four 100 per cent first-year capital allowances, Enhanced Capital Allowance (ECA), schemes.
2. It also extends the ECA scheme for expenditure on plant and machinery for use in designated assisted areas (enterprise zones), due to expire on 31 March 2017, for an additional three years to 31 March 2020.

Details of the Section

3. This section amends the following sections of the Capital Allowances Act 2001 (CAA):
 - Section 45D - expenditure on cars with low carbon dioxide emissions.
 - Section 45DA - expenditure on zero-emission goods vehicles.
 - Section 45E - expenditure on plant or machinery for gas refuelling station.
 - Section 45K - expenditure on plant and machinery for used in designated assisted areas.
4. In each case a new subsection (1A) is added, permitting the Treasury to extend the duration of the schemes by way of Treasury Order.
5. It also amends section 45K(1)(b) CAA by substituting “8 years” for “5 years” extending the duration of the scheme for enterprise zones to 31 March 2020.

Background Note

6. 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.
7. Most businesses are entitled to a 100 per cent allowance, the Annual Investment Allowance (AIA), for their investment in most plant or machinery (excluding cars) up to an annual limit, which for the period 1 April 2014 for businesses within the charge to corporation tax and 6 April 2014 for businesses within the charge to income tax to 31 December 2015 has been temporarily increased to £500,000. For expenditure above that limit, writing-down allowances (WDA) are available, which are given at the main rate of eighteen per cent or the special rate of eight per cent per annum.
8. ECAs are available for expenditure on certain types of plant or machinery as an alternative to AIA and WDA. ECAs, currently available at a rate of 100 per cent, accelerate the rate at which tax relief is available for capital spending and allow a greater

*These notes refer to the Finance Act 2014 (c.26)
which received Royal Assent on 17 July 2014*

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. 100 per cent ECAs therefore provide business with a valuable tax-timing benefit.

9. Expenditure on electric cars or cars with very low carbon dioxide emissions (up to 95g/km driven from 1 April 2013) qualify for ECAs. The allowance aims to encourage investment in cleaner cars by providing a tax incentive for businesses to invest in those cars with the lowest carbon dioxide emissions. The government announced in Budget 2013 that the scheme would be extended for further three years to March 2018 when the existing scheme ends at the end of March 2015 and the qualifying CO2 threshold reduced to 75 gms per km driven.
10. 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 CO2 emissions and to encourage a shift to cleaner goods vehicles. The government announced in Budget 2014 that the scheme would be extended for further three years to March 2018 when the existing scheme ends at the end of March 2015. To comply with EU State aid rules the availability of the ECAs will also be limited to businesses that do not claim the Government's Plug-in Van Grant.
11. ECAs for expenditure on gas refuelling equipment aim to encourage the up-take of natural gas, hydrogen and biogas as fuels for vehicles by providing a tax incentive for businesses to invest in the necessary refuelling infrastructure, and complements wider measures to encourage the up-take of alternatively fuelled vehicles. The government announced in Budget 2013 that the scheme would be extended for further three years to March 2018 when the existing scheme ends at the end of March 2015.
12. ECAs for expenditure on plant and machinery for use in enterprise zones were introduced in Finance Act 2012 originally for a five year period to 31 March 2017. This measure will extend that period by three years to 31 March 2020. ECAs are part of a package of measures designed to encourage economic growth and investment in enterprise zones, including simplified planning and business rates discounts.