



## Enhanced Capital Allowance Scheme Update

**Kool-It is delighted to advise that once again, Daikin sets the industry standard with the largest number of ECA eligible Heat Pumps –166. Expenditure incurred on qualifying Heat Pumps for space heating can qualify for 100% first-year allowances. (see [www.eca.gov.uk](http://www.eca.gov.uk))**

### What are the benefits of ECAs?

ECAs enable businesses to claim 100% first-year capital allowances on their investment in designated energy-saving plant and machinery in the year in which the expenditure was incurred. ECAs bring forward relief that can be set against profits of a period earlier than would otherwise be the case.

ECAs offer the benefit of a cash flow boost resulting from the reduction of the business's tax bill of the year in which the investment is made.

### Who can claim?

- Companies who are liable for Corporation Tax or
- Individuals (self employed) and Partnerships that complete an Income Tax Return
- **Claims against qualifying Heat Pumps apply to the above businesses where expenditure is incurred on or after 5<sup>th</sup> August, 2002**

### What can your customer claim ECAs for?

- Purchase, direct transportation and installation costs including crange, project management costs, modifications to existing plant and machinery and commissioning.
- Professional fees **but only** if they directly relate to the acquisition and installation of assets that are plant or machinery.  
*Feasibility studies, system design fees or other "pre purchase" costs do not qualify.*
- Costs of alterations to an existing building arising as a direct result of the installation of the qualifying plant or machinery may be considered at the discretion of the Inland Revenue.

### EXAMPLE: Claim per £1,000

<b>Benefits of New Heat Pump Enhanced Capital Allowance compared to the Normal Capital Allowance</b>		
	<b>(Normal) Capital Allowance</b>	<b>Enhanced Capital Allowance</b>
<b>Tax Rate</b>	30%	30%
% of Expenditure to which allowances apply	25%	<b>100%</b>
<b>Capital Expenditure per £1,000</b> ➤ ECA qualifying expense	£1,000	£1,000
Taxable amount reduced by	25% of £1,000 <b>= £250</b>	<b>100% of £1,000 = £1,000</b>
<b>FIRST YEAR SAVING</b>	30% of £250 <b>= £75</b>	30% of £1,000 <b>= £300</b>
Balance brought forward to 2 <sup>nd</sup> year	£1,000 – 250 <b>= £750</b>	<b>£0</b>
Taxable amount reduced by	25% of £750 <b>= £188</b>	<b>£0</b>
<b>Second year saving</b>	30% of £188 <b>= £56</b>	<b>£0</b>
	<b>and so on</b>	

Note: The calculations in the table are for a business liable for corporation tax at the rate of 30%. Smaller businesses will pay tax at a lower rate.

Based on the above table – if total Capital Expenditure equals £50,000 then First Year saving on Corporation Tax equals:

Normal Capital Allowance	£3,750 (if tax rate is 30%)
Enhanced Capital Allowance	£15,000 (if tax rate is 30%)