



# The Enhanced Capital Allowance scheme for Water Efficient Technologies

- Reduce water use
- Reduce water bills
- Boost cash flow

If you are considering purchasing new equipment to help you reduce water use, why not make it sustainable – not only saving you water but also saving you money.

The Government's Water Technology List (WTL) promotes products that encourage sustainable water use and rewards businesses for investing in them through the Enhanced Capital Allowance (ECA) scheme.

### Boost your cash flow

The ECA scheme for Water Efficient Technologies encourages businesses to invest in sustainable water products specified on the WTL.

This scheme allows businesses to write off the whole cost of the equipment against taxable profits in the year of purchase. This can provide a cash flow boost and an incentive to invest in sustainable water products which can carry a price premium when compared to less efficient alternatives. The WTL specifies the water efficient technologies that are included in the ECA scheme.

Assuming a business pays a corporation tax rate of 28%:

- **The capital allowance for general spending on equipment<sup>1</sup>** is 20% a year on the reducing balance basis. In the year spending is incurred, the allowances can provide tax relief worth £5.60 in terms of reduced tax for every £100 spent. The balance of the spending is relieved in later years.
- **ECAs** can provide tax relief worth £28 in terms of reduced tax for every £100 spent in the year the spending is incurred. All the allowances are available in the year the spending is incurred, which can provide a cash flow boost.

Loss-making companies can realise the tax benefit of their investment in WTL qualifying technologies with ECA first-year tax credits by surrendering losses attributable to ECAs in return for a cash payment from the Government.

### For example:

A company has made a profit of £25,000 and purchased a piece of ECA eligible equipment costing £1,000. It pays corporation tax at 28%. The following calculations show the relative benefit of the ECA compared to the general capital allowance for plant and machinery.

### Capital allowance (at 20% a year on the reducing balance basis)

Equipment cost **£1,000**

Capital allowance (20%) **£200**

Effect of allowances for tax (£200 @ 28%) **£56**

In the year of investment, the capital allowances are worth £56, in terms of reduced tax. Capital allowances can be claimed on the unrelieved expenditure of £800 in later years.

### Profit less capital allowance

$£25,000 - £200 = £24,800$

**Tax at 28%**  $£24,800 \times 28\% = £6,944$

**Tax payable with capital allowances at the general rate** **£6,944**



The amount payable to any company claiming ECA first-year tax credits is 19% of the loss surrendered. So if a company surrenders a loss of £100,000, the cash payment it will receive is £19,000.

The ECA first-year tax credits that can be claimed are capped; the maximum credit claimable is limited to the greater of the total of the company's PAYE and National Insurance payments for the period for which the claim is made, or £250,000.

Look out for the WTL symbol when procuring new equipment. The symbol shows that a product has been independently assessed against published criteria to be a water efficient product and is on the WTL.



Always remember to ask sales people about the ECA scheme and WTL. Does the equipment you are considering buying qualify for an ECA? Is it on the WTL?

### Improve your bottom line

Businesses are often tempted to opt for lowest cost equipment. However, such immediate cost savings can prove to be a false economy. Considering the life-cycle cost before investing in equipment can help enhance the cash flow benefits in addition to the ECA.

Your WTL investment will help you to reduce water use and the amount of effluent generated. Typically, water minimisation measures could reduce costs by 20-50%.

Businesses and organisations that are not eligible to claim ECAs can also benefit from water efficient products and can use the WTL as a sustainable procurement tool.

So the next time you're thinking about a capital investment in equipment, think life-cycle cost not lowest cost.

### Complete your business tax return

Capital allowances and ECAs are claimed in a business's tax return. For tax purposes, your business also needs to keep records of the purchase of products and systems, including water efficient products, which are eligible for the ECA.

Claiming capital allowances and ECAs is straightforward but it's worthwhile talking to your business's accountant at an early stage to let them know that your business has incurred qualifying expenditure. The accountant can let you know what records they need you to provide so that they can complete your business's tax return.

Your business can claim an ECA on the cost of qualifying equipment, transportation of the equipment to the site and for direct installation costs. For more information, visit Her Majesty's Revenue and Customs website at [www.hmrc.gov.uk/manuals/camanual/CA23100.htm](http://www.hmrc.gov.uk/manuals/camanual/CA23100.htm), and [www.hmrc.gov.uk/manuals/camanual/CA23135.htm](http://www.hmrc.gov.uk/manuals/camanual/CA23135.htm).

### ECA (at 100% in the year the spending is incurred)

Designated ECA equipment cost **£1,000**

ECA (100%) **£1,000**

Effect of allowances for tax (£1,000 @ 28%) **£280**

In the year of investment, the ECA is worth £280 in terms of reduced tax.

#### Profit less allowance

**£25,000 - £1,000 = £24,000**

**Tax at 28%** £24,000 x 28% = **£6,720**

**Tax payable with ECAs** **£6,720**

In this example, in the year of investment, if the company had invested in designated ECA equipment it would have paid **£224 less tax** compared to the same investment in less efficient equipment.

<sup>1</sup>You may pay tax at a different rate from the above or have existing tax reliefs that you have used up, or were not eligible for the £50,000 Annual Investment allowance. To understand how ECAs will affect your business, please either contact your own tax advisor or visit HM Revenue & Customs website [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

## What technologies qualify?

If your business is thinking of investing in water efficient products and systems, then the following technologies are specified in the WTL. The WTL is periodically reviewed and technologies can be added or removed. Within each technology area there can be multiple sub-technologies.

- Cleaning in place equipment
- Efficient showers
- Efficient taps
- Efficient toilets
- Efficient washing machines
- Flow controllers
- Leakage detection equipment
- Meters and monitoring equipment
- Rainwater harvesting equipment
- Small scale slurry and sludge dewatering equipment
- Vehicle wash water reclaim units
- Water efficient industrial cleaning equipment
- Water management equipment for mechanical seals
- Water reuse<sup>2</sup>

The WTL lists over 1,800 water efficient products and you can check to see if your purchase qualifies by visiting [www.eca-water.gov.uk](http://www.eca-water.gov.uk).

<sup>2</sup>End-user businesses apply against the eligibility criteria for certification of their water reuse system in order to qualify for the ECA.

## Find out more about ECAs and the WTL

The WTL is managed by Defra and HMRC in partnership with Envirowise.

For businesses with questions about the ECA scheme or the WTL, please visit [www.eca-water.gov.uk](http://www.eca-water.gov.uk), or contact the Envirowise Advice Line on **0800 585794**.

For general tax enquiries relating to the ECA scheme, please contact Nick Williams at HM Revenue & Customs on **020 7147 2541**, or email [Nicholas.Williams@hmrc.gsi.gov.uk](mailto:Nicholas.Williams@hmrc.gsi.gov.uk) or visit [www.hmrc.gov.uk/manuals/camanual/CA23100.htm](http://www.hmrc.gov.uk/manuals/camanual/CA23100.htm).

For specific advice, you must contact your tax office.

## Information for manufacturers or suppliers

Manufacturers or suppliers wishing to list products on the WTL should visit [www.eca-water.gov.uk](http://www.eca-water.gov.uk) or contact the Envirowise Advice Line on **0800 585794**.

## Useful contacts

[www.eca-water.gov.uk](http://www.eca-water.gov.uk)

[www.defra.gov.uk](http://www.defra.gov.uk)

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

[www.envirowise.gov.uk/water](http://www.envirowise.gov.uk/water)

Envirowise Advice Line

**0800 585794**