CAPITAL ALLOWANCES

Sustainable spending

Steven Gardiner outlines how accelerated capital allowances for energy efficient equipment should be front of mind for companies looking to improve sustainability.

In a positive sign that improvements in the economy are directly impacting on activity in Irish companies, many are now increasing capital spending on equipment. It's critical that this capital expenditure is spent prudently, and delivers real value to the business.

A cost-effective way to do this, which is not being availed of fully by many Irish companies, is to invest in energy efficient equipment, and so benefit from the accelerated capital allowances that are potentially available.

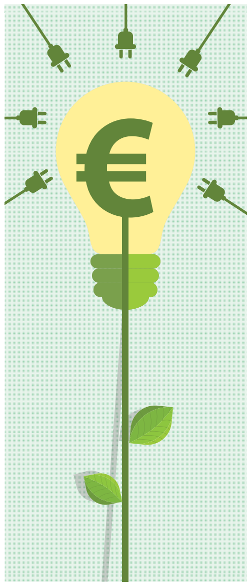
Not only will this help increase the sustainability of the business, which is becoming increasingly important to customers, stakeholders and employees alike, but will also result in cost efficiencies.

At a time when many companies are striving to reduce both their consumption costs and their carbon footprint, this is an area that has particular relevance to anyone with responsibility for procuring equipment.

FINANCIAL ASSISTANCE

The good news is that Finance Act 2014 contains a three-year extension of this accelerated capital allowance regime for capital expenditure on certain energy efficient equipment, and which will make the regime available until December 31st 2017.

This extension is most welcome as



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the regime provides companies with an opportunity to claim accelerated capital allowances on energy efficient equipment, whereby 100% of the purchase value of qualifying expenditure can be written off against their profits in the year of purchase.

This can provide valuable financial assistance to companies, enabling them to claim an immediate cash tax benefit, and generate significant net present value savings.

QUALIFYING

So, how does it work in practice? Capital allowances of 100% are available in the year in which expenditure on qualifying equipment is incurred.

Ordinarily, wear and tear allowances for plant and machinery are given over an eight-year period, at an annual rate of 12.5% on capital expenditure incurred. This rate is accelerated in the case of approved energy-efficient equipment, which allows the entire allowance to be claimed in year one.

TAX BENEFITS

Qualifying energy-efficient equipment must meet certain specified criteria and fall within 10 classes of technology determined by the Minister for Communications, Energy and Natural Resources. The approved items are maintained by Sustainable Energy Authority of Ireland (SEAI) and they can be found listed on the SEAI's website (www.seai.ie).

What's more, where companies have claimed accelerated capital allowances under this regime, additional indirect tax benefits may also arise. For example, this may enhance the availability of a cash refund in respect of unused R&D tax credits or may create additional tax losses, which can be used throughout the Irish group.

TERMS AND CONDITIONS

As mentioned, for accelerated capital allowances to be claimed, the equipment must be included on the SEAI-published list at the end of the company's accounting period.

This point is of vital importance in that valuable accelerated capital allowances may be lost if the equipment in question is not SEAI-registered in the accounting period concerned.

IMPORTANCE OF REGISTRATION

It is extremely important that companies ensure that the particular equipment and model they are looking to purchase is registered – it is not enough to assume that if the equipment has energy efficient characteristics that the allowances will apply.

We have seen instances, unfortunately too late, where companies had not registered their equipment of choice, and therefore had lost out on the opportunity to avail of accelerated capital allowances where they had purchased valuable equipment that was not yet SEAI-approved at the company's accounting year-end.

While this may be viewed as somewhat restrictive, where a company takes a proactive approach SEAI registration can be completed in a timely manner with a view to ensuring that accelerated capital allowances may be claimed. The bottom line is that ensuring equipment is registered can make a real and very tangible difference to a company's cash position.

TAX BENEFITS

Encouragingly, in recent years, the SEAI has been updating its list of qualifying equipment biannually. In fact, according to the SEAI website, 1,500 products were added to the list in December 2014 alone.

In addition, the SEAI highlights on its website that there are already about 12,200 qualifying products currently on its list of qualifying equipment. It also claims that approximately 85% of a company's equipment needs could be sourced through this list which could deliver positive cash tax benefits for companies.

Our advice to companies is to review their annual capital budgets now to determine whether their proposed capital spend could qualify for accelerated capital allowances.

Early action is necessary particularly in situations where the equipment is not yet registered by the SEAI, since appropriate and timely action can then be taken ahead of the accounting year-end to ensure that the equipment is SEAI-approved and thus accelerated capital allowances may be claimed.

EXPENDITURE POSITION

We have worked with a broad range of companies and industries, such as the food and beverage, pharmaceutical and technology, media and telecommunications industries to name a few, to ensure efficient expenditure in this regard.

However, the accelerated capital allowance regime has such a far-reaching application and all companies should consider their capital expenditure position in this regard.

To cite just one example, we have experienced a large increase in the uptake of the accelerated capital allowance regime by companies setting up data centres to support their businesses. The recent announcement of new facilities of this type being constructed across the country should see this trend continue.

OPPORTUNITY

There is a significant, but relatively underappreciated, opportunity for many companies across many industries to improve their tax positions by availing of the accelerated capital allowance regime for energy efficient equipment.

As already mentioned, early consideration and action to claim this allowance could have significant, positive results for companies, so this issue merits prompt attention, particularly from those with responsibility for procurement.

What's more, companies have a real incentive to improve the sustainability of their businesses, which is increasingly important, as all of us in business look to drive the green agenda within our organisations. ■

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