



Encouraging
investment in
**water
efficient
technologies**

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

www.eca-water.gov.uk

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.

Improve your cash flow

Investing in a product on the WTL may provide a cash flow boost to your business through the ECA scheme. ECAs allow 100% of the cost of the product on the WTL to be offset against your taxable profit of the year it was purchased.

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

How the ECA works

If your business pays corporation or income tax in the UK, and has sufficient profits for the allowance to be written-off against, you can claim the allowance.

100% ECAs bring forward the time that tax relief is available on qualifying investments, allowing the full cost to be written-off against the taxable profits of the period in which the qualifying spending is incurred, which can deliver a helpful cash flow boost and a shortened payback period on investment.

What can you claim for?

- The price paid for a new product
- The costs directly associated with the installation of the equipment

Claims can only be made for products appearing on the WTL at the time of investment.



How much of an incentive is it?

Assuming a business has sufficient profits for the allowance to be written-off against, and a corporation tax rate of 28%:

- **The capital allowance for general spending on equipment¹** 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.

¹You may pay tax at a different rate to the example above or have existing tax reliefs. 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

For example: A company has made a profit of £25,000 and purchased a piece of 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 x 28% = £6,944**

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

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.

The WTL is updated annually. At 31 August 2007, WTL products are available under the following technology categories:

- Cleaning in place equipment
- Efficient membrane filtration systems*
- 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

*End-user businesses can apply against the eligibility criteria for certification of their membrane filtration system in order to qualify for the ECA

Useful contacts:

www.eca-water.gov.uk

www.defra.gov.uk

www.hmrc.gov.uk

www.envirowise.gov.uk/water

Envirowise Advice Line

0800 585794

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