Whittingham Riddell

chartered accountants

Alternative Energy & Tax

Introduction

- Background
- Income Tax
- VAT
- Capital Allowances
- Capital taxes/structures





Technologies

Hydro

UK200Group agriculture

Technologies

Wind

UK200Group agriculture

Technologies

Solar

UK200Group agriculture

Technologies

Biomass

Energy Act 2008

- Government backed measure to encourage small producers to produce energy by greener means
  - Electricity = Feed in Tariff
  - Heat = Renewable Heat Incentive





Feed in Tariff

- Generation tariff

- Export tariff

- Energy saving





Woodland

- Income tax
  - Commercial occupation = tax free
  - No tax relief on expenses
  - No capital allowances
  - Grants not taxable unless for agricultural income foregone
  - Processing
    - Planks OK (Christie v Davies (1945))
    - Timber Box manufacture = separate trade (Collins v Fraser (1969))

Woodland

- VAT
  - Can register
- IHT
  - 100% BPR after two year ownership
- CGT
  - Timber exempt
  - Rollover on land





Renewable Heat Incentive

- World first
- Delays
- Similar to FITs
- Non residential – Since July 2011
- Residential - October 2012?





Renewable Heat Incentive

- Generation tariff

- Energy saving

    - Generation tariff
- Annually linked to RPI
- Length of payments: 20
- Size limit per installation: technology dependant





Income Tax

- Feed In Tariffs (& RHI)
- Available up to 5MW
- Tax depends on:
  - Size;
  - location; and
  - Intended level of electricity generated





Income Tax

- s782A ITTOIA 2005
- No income tax on sale of electricity from microgeneration system if:
  - The system is installed at or near domestic premises occupied by the individual;
  - The individual intends that the amount of electricity generated by it will not significantly exceed the amount of electricity consumed on those premises





Income Tax

- Domestic:
  - wholly or main used as a separate dwelling
- Microgeneration:
  - less than 50KW for electricity, 45KW for thermal





Income Tax

- Business
- FITs received for non domestic electricity are taxable
- Accounts presentation credit set against external electricity costs
- Rental business – separate trade? Relief for cleaning, repair costs
- Dividing line for individuals depends on ‘domestic’ and ‘microgeneration’

INPUT VAT

- Residential – special rate of 5%
- Part business, part residential – proportionate reclaim
- Business – 20% but can reclaim





OUTPUT VAT

- Feed In Tariff & Renewable Heat Incentive
  - Generation Tariff
    - FITs and RHIs
  - Export Tariff
    - FITs





OUTPUT VAT

- Generation Tariff
  - Outside the scope
  - Electricity use not relevant
- Export Tariff
  - Standard rated
    - Business pays in normal way

Capital Allowances

- Tax relief on the purchase of trading assets
- 0% - 100%
- Annual Investment Allowance
  - £100,000
  - Reduced to £25,000 from April 2012
- Amounts over AIA 20% (reducing to 18%)





- Energy
- Cars with low CO_2 emissions
- Water

ENHANCED CAPITAL ALLOWANCES

Enhanced Capital Allowances (ECAs) enable a business to claim 100% first-year capital allowances on their spending on qualifying plant and machinery. There are three schemes for ECAs:

- Energy-saving plant and machinery
- Low carbon dioxide emission cars and natural gas and hydrogen refuelling infrastructure
- Water conservation plant and machinery

Businesses can write off the whole of the capital cost of their investment in these technologies against their taxable profits of the period during which they make the investment.

This can deliver a helpful cash flow boost and a shortened payback period.

- Air to air energy recovery
- Automatic Monitoring and Targeting
- Boilers
- Combined Heat and Power
- Compact heat exchangers
- Compressed air equipment
- Heat pumps for space heating
- HVAC zone controls
- Lighting
- Motors
- Pipework insulation
- Refrigeration Equipment
- Solar thermal systems
- Thermal screens
- Variable Speed Drives
- Warm air and radiant heaters

Enhanced capital allowances

- – 100% for qualifying plant and machinery
- – Not all renewable projects qualify
- – Must be on Energy Technology List (www.eca.gov.uk/etl)
- – Systems include:
  - Combined heat and power
  - Solar heating
  - Biomass boilers
  - Water heating systems

- Maximise by taking advice at planning stage





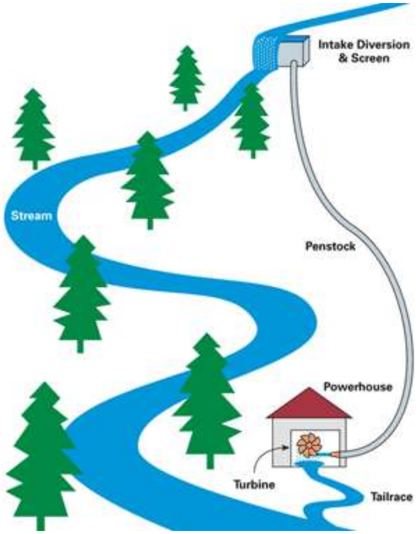
Capital allowances

- Consultation
  - FIT and RHI plant and machinery
  - To fix a rate
  - ‘Fair and certain’
  - Consistent treatment between businesses





Renewables – capital issues



Capital Taxes

- Business rates
- Change in land use
- Consider:
  - Potentially reduced single payment
  - Potential loss of IHT reliefs





Capital Taxes

- APR
  - 50% - 100% on agricultural value
  - Heat or electricity generation is not agriculture

- BPR
  - Whole business view





Capital Taxes

- Farmer and Giles v IRC
- Brander (Executor of the 4th Earl of Balfour) v IRC
- Run as one business
  - Overall context
  - Turnover & profit
  - Time spent
  - Capital value
- Trading overall





Capital Taxes

- Has BPR become all or nothing?
- Would a renewables project tip the balance?
- Ensure project tips balance in the right direction





Risks

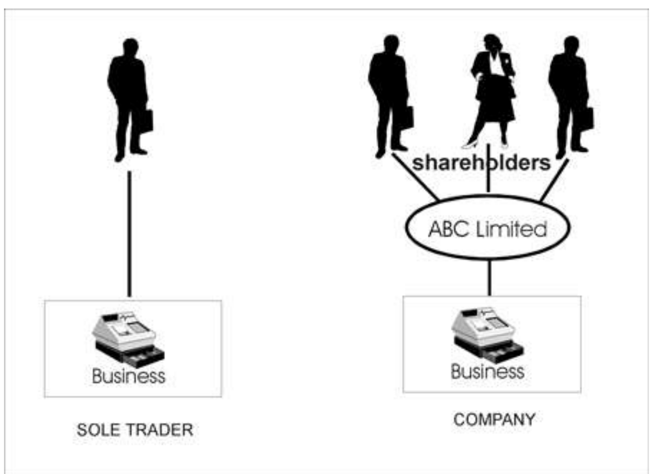
Structure

- Limited liability
  - Limited Liability Partnership
  - Limited Company

- Accounts public – filed at Companies House

Structures

- Limited Companies
- Tax at 20% rather than 40% (or 50%)



Conclusion

- Non domestic = not tax free
- Consider VAT
- Consider structure
- Do not look at project in isolation





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