Markham Vale Enterprise Zone

Introduction

It was announced in the Budget 2011 that "Enterprise Zones" would be created in areas within the United Kingdom with high economic potential.
Markham Vale is one of a limited number of Enterprise Zones which has been selected to benefit from a potential pool of £300m of Enhanced Capital Allowances ("ECA") on items of significant capital investment incurred between April 2012 and March 2017.

What are Capital Allowances?

Capital allowances are a form of tax relief that is available on amounts a business spends on qualifying capital items. They can be taken every tax year, as a percentage of what you have spent, on a reducing balance basis, until fully relieved.

Under the current standard Capital Allowances system, there are a variety of rates depending on the type of capital item(s), but the most common rates for a normal business are 18% for plant and machinery and 8% for integral features, for the tax year 2012-2013.

Therefore a business spending £50m on plant and machinery would have £9m (18%) taken off their taxable profit in the first year of purchasing their assets, assuming that their profit exceeded £9m, and the tax rate was 25%, would mean a cash-flow benefit of £2,250,000.

Enhanced Capital Allowances ("ECA")

The "ECA" available in the Enterprise zones such as Markham Vale, will allow those who incur qualifying capital expenditure a 100% capital allowance in the first year of purchasing their assets, as opposed to the 18% that would normally apply.

For example:

Company A expends £50m on qualifying capital items,
and the company's profit was £50m or greater the "ECA" cashflow benefit would be the full £12.5m in the first year of purchasing their assets i.e. the saving of 25% corporation tax.

If the profit made by Company A was £25m in the first 2 years, the "ECA" benefit would be £6,250,000 in each of those years.
If the profit made by Company A was £10m pa for the 5 years following the eligible expenditure the "ECA" benefit would be £2,500,000 in each of those years

Where the company makes a trading loss for tax purposes and the loss is not offset against other group profits or carried back, it can be carried forward indefinitely to be set against taxable profits from the same trade in future accounting periods. Therefore the company will gain the cash flow benefit of the ECA's when it starts to make taxable profits

The Enhanced Capital Allowances provides for significant cashflow benefits.

Summary of Criteria

- The relevant company needs to be a 'trading' company
- The expenditure must be incurred within a designated Enterprise Zone
- The expenditure can be incurred within a 5 year period
- The new capital investment must be in qualifying plant or machinery (both main rate and special rate, excluding cars)
- The capital assets must not be used or second-hand
- The expenditure is for new capital assets to the furtherance of the expansion of the business and not as a replacement for machines currently being used in normal business
- Effective from April 2012
- The relevant Company does not trade within the General Block Exemption Regulations which cover the following: production of agricultural products listed
  in Annex I to the EC treaty, the fishery or aquaculture industries, the coal industry, the steel industry, the shipbuilding industry, synthetic fibres, transport means and equipment in the transport sector, companies in difficulty, companies subject to an outstanding recovery order in respect of illegal aid
- The Government have clearly stated, "assuming that an investor meets the requirements of the tax legislation then there will then be no additional central government process for them to go through".

Further Information

- HMRC notice: "Enterprise Zones: First-Year Allowances for Designated Areas"
- Sheffield City Region Local Enterprise Partnership
- Finance Bill 2012