ACCELERATING THE TRANSITION TO NET ZERO WITH A GREEN SUPER-DEDUCTION

Summary

1. The Government's ambitious net zero goals will be particularly challenging for SMEs. These businesses require support to acquire the assets they need to commit to a lower- carbon future, such as microgeneration equipment, zero-emission commercial vehicles, and battery storage. They also have concerns about stranded assets. The Government has an unprecedented opportunity as we enter the post-pandemic recovery phase to encourage green investment and reduce these barriers for businesses.

2. In the current uncertain economic environment, many businesses will be wary of investing large sums of capital into new green assets. Transitioning to green assets, such as by replacing a fleet of diesel vans with their newer electrically powered equivalents, typically incurs high up-front costs which a business may be unwilling to pay.

3. Businesses will typically look to external finance, often using hire purchase, leasing, or short-term rental to acquire high priced assets. Green assets can also carry risks for the funders of such assets, typically with greater risks with respect to their residual value, untested technologies, or the lack of an obvious secondary market. This means greater incentives are needed to support and encourage business investment in green plant and machinery.

4. Existing incentives to encourage businesses to make green investments, through the capital allowances regime, are ineffective, complex to administer, and often short-term, time limited interventions. The Government should instead radically rationalise the existing regime and create a new dedicated "green super-deduction".

5. A new green super-deduction would replace existing allowances for green plant and machinery, such as the 100% first year allowance (FYA) for electric vehicle charging points and electric vans, and the 50% FYA for plant and machinery which supports a business's energy efficiency. This would deliver simplicity for businesses, especially SMEs, which may otherwise not use capital allowances.

6. A new green super-deduction would also be available to businesses regardless of the type of finance they choose to use to fund their plant and machinery. This means, unlike the current super-deduction, it would cover leased assets or those acquired via short term rental. This would further support businesses seeking to move to greener assets.

7. Where businesses choose to use short term hire, to address a specific project need, or because they may otherwise be ineligible for finance, the super deduction would be available to the lender, allowing them to pass on the cost in reduced rentals.

Plant and Machinery Investment

8. In 2022, FLA members provided £7.8 billion to businesses and the public sector for investment in plant and machinery.[1] This included £2.7 billion for construction plant and £2.1 billion for agricultural plant. They therefore play a significant role in helping business to access plant and machinery.

9. Businesses will usually turn to leasing or hire purchase to fund their plant and machinery needs as these assets are often expensive or highly specialized and thus only needed for specific projects. In these scenarios full ownership or outright cash purchase would not be an appropriate solution.

10. In the construction, logistics and transport industries in particular, businesses turn to short-term hire. This is because certain assets may only need to be on site for very short periods of time, and many small contractors would find it too costly to own this equipment. Approximately 70% of construction plant is hired in via plant hire firms[2]. Similarly, in transport, over 800,000 vans and 100,000 HGVs are leased or rented to UK businesses, representing 1-in-5 vans and 1-in-5 HGVs on UK roads.

11. Plant hire firms will often acquire plant and machinery, either through hire purchase or leasing due to the very high outright cost of the equipment and the short life of the assets.

12. This means that, especially in construction and across all transport-reliant industries, neither the user of the equipment, nor the purchaser, benefit from the current super-deduction. This means that businesses may be incentivised into making choices about finance which may not be the most appropriate choice for their needs.

13. If lenders, including leasing companies, could offset purchases of EVs against their tax position this would enable them to offer much more competitively priced finance/rental payments for ULEVs. Research undertaken by the British Vehicle Rental and Leasing Association (BVRLA) suggests passing on the benefit of capital allowances could lead to customer savings of over £50 a month on a zero-emission van.

14. Accordingly, any new green super-deduction should be available to firms acquiring assets which will then be let to customers on a short-term hire basis

[1] FLA Statistics, 2022

[2] Construction Plant-Hire Association, 2021

or to users of plant and machinery who choose to lease that machinery to be able to access the super-deduction.

A new "green super deduction"

15. Currently some assets benefit from the 50% FYA for plant and machinery, such as heating and cold-water systems, electrical systems, air conditioning, lifts, solar panels, and thermal insulation to an existing commercial building. Other allowances exist including 100% FYAs for electric vehicle charging points and e-vans. Allowing such expenditure to be eligible instead for a green super-deduction and widening the scope further to include a greater range of green assets would ensure that businesses are more likely to select a green asset for their needs at a time when they may otherwise be more cautious in their investment choices. It would also ensure a simplified and easy to understand regime that would help businesses.

16. The super-deduction can also be limited to green assets either by relying on the Government's forthcoming "green taxonomy", or by limiting it to investments in the following types of plant and machinery:

- Plant and machinery used for energy generation which qualifies for the Government's Renewable Heat Incentive (RHI) including:
    - Air to water heat pumps
    - Biomass boilers
    - Ground source heat pumps
- Solar generation equipment
- Plant and machinery which would substantially reduce a business's carbon footprint, such as
    - mechanical ventilation and heat recovery systems (MVHR),
    - the installation of insulation to modern standards,
    - "Heat batteries"
    - battery storage
- Electric or hydrogen vehicles used for commercial purposes.
- Plant and machinery or infrastructure required for the essential maintenance or use of the "green asset" such as, but not limited to,
    - charging points for EVs,
    - ducting and associated ancillaries for heat pump or mechanical ventilation and heat recovery systems, etc

Recommendations

17. A new green super-deduction should be created which replaces current FYAs and capital allowances and is available to a broader range of businesses and assets than currently.

18. Firms acquiring assets which will then be let to customers on a short-term hire basis should be able to access the new green super-deduction.

19. Firms who acquire plant/machinery with which they then lease or rent on to end users should be able to access the super deduction and pass on the savings.

About the BVRLA

The BVRLA represents over 1,000 companies engaged in vehicle rental, leasing and fleet management. Our membership is responsible for a combined fleet of four million cars, vans, and trucks – one-in-ten of all vehicles on UK roads.

BVRLA members represent the demand-side of the automotive industry, buying around 50% of new vehicles, including over 80% of those manufactured and sold in the UK. In doing so, they support almost 500,000 jobs, add £7.6bn in tax revenues and contribute £49bn to the UK economy each year.

About the FLA

The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance providers of leasing and hire purchase. In 2022, FLA members provided £148 billion of new finance to UK businesses and households. Of this total, £55 billion was provided by non-bank lenders. £34 billion was provided in the form of asset finance to businesses, including £22 billion to SMEs, to fund new equipment, plant and machinery, and purchased software. £115 billion was provided in the form of consumer credit, which includes £50 billion of motor finance supporting the purchase of 84% of all private new car registrations.