

**EXPLANATORY MEMORANDUM TO THE
ENERGY-SAVING ITEMS REGULATIONS 2005**

2005 No. 1114

1. This explanatory memorandum has been prepared by **the Commissioners of Inland Revenue** and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Description**

The Regulations provide for expenditure on an additional category of energy-saving item to be eligible for the relief from income tax given by section 312 of the Income Tax (Trading and Other Income) Act 2005. Currently a deduction is provided for certain capital expenditure on loft and cavity wall insulation. The deduction is made when computing the profits of a property business for the purposes of income tax. The Regulations will allow a deduction also to be made for capital expenditure on solid wall insulation.

3. **Matters of special interest to the Select Committee on Statutory Instruments**

The Regulations were made on 6 April 2005 and come into force on 7 April 2005. The Regulations could not be laid 21 days before coming into force as they could not be made until the relevant power in the Income Tax (Trading and Other Income) Act 2005 came into force on 6 April 2005. This power does not allow regulations to take effect before they are made and so the Regulations are made to take effect on the earliest possible day. If the Regulations had come into force after 21 days on 27 April, property businesses would have been denied relief for expenditure in that period.

4. **Legislative background**

4.1 The Regulations are made by the Treasury under section 312(5)(c) of the Income Tax (Trading and Other Income) Act 2005.

4.2 The Regulations are the first use of this power since the Income Tax (Trading and Other Income) Act 2005 received Royal Assent on 24 March 2005.

4.3 The Regulations do not implement EU legislation.

5. **Extent**

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Regulations are subject to annulment and do not amend primary legislation: accordingly no statement of compatibility with the Convention rights is required.

7. Policy background

7.1 Sections 31A and 31B of the Income and Corporation Taxes Act 1988 (now rewritten as sections 312 to 314 of the Income Tax (Trading and Other Income) Act 2005) were introduced to help the United Kingdom meet its target under the Kyoto protocol to help reduce greenhouse gas emissions. UK private rented housing is known to have poor standards of energy efficiency and these provisions provided a deduction (known as the “Landlord’s Energy Saving Allowance”) to encourage landlords who pay income tax to install certain types of insulation (initially cavity wall insulation and loft insulation) in let residential property. Expenditure of this kind cannot normally be deducted when calculating taxable profits and it is not eligible for capital allowances under the Capital Allowances Act 2001. The measure has a limited life and the deduction will not be available for expenditure incurred after 5 April 2009. The allowable deduction is limited to £1,500 per building.

7.2 The Regulations extend the types of insulation which qualify for the Landlord’s Energy Saving Allowance to include solid wall insulation.

8. Impact

The extension of the Landlord’s Energy Saving Allowance to include solid wall insulation is expected to accelerate the installation of that kind of insulation in suitable let properties. No Regulatory Impact Assessment has been prepared as the additional compliance costs for landlords who claim the allowance and include the claim in their self-assessment returns are unlikely to be significant. There is no impact on the voluntary sector and no significant increase in Inland Revenue administrative costs is expected.

9. Contact

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