# Supporting the transition to Net Zero Emissions

## Maximising your return on investment through tax incentives and reliefs

**The UK is the first major economy to pass laws with the aim of achieving net zero emissions by 2050. Meeting this target will require a "green industrial revolution" involving significant development projects in areas such as Carbon Capture, Usage and Storage (CCUS) and hydrogen production, amongst others. These projects represent substantial opportunities for the companies involved, but are capital intensive and carry significant technological challenges.**

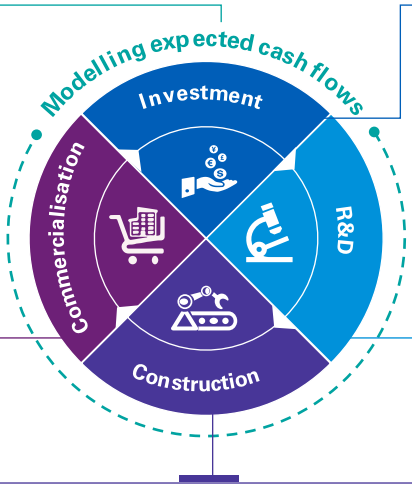
Tax has a key role in ensuring that the investment risks for such endeavours are appropriately managed. For example, companies should ensure that all government sponsored tax incentives (e.g. R&D claims and capital allowances) as well as government grants are fully exploited to minimise setup/investment costs. The potential benefits are substantial – hence these reliefs should be factored into financial, funding and costing models, to ensure that their cash impact is taken into account for investment decisions.

## Considering the Investment Lifecycle

You will be keen to maximise your Return on Investment (ROI) on what are long-term projects with considerable uncertainty. The diagram below shows the key role that tax incentives and governmental grants can play in achieving this.

**Cashflow forecasts**
Companies often overlook the fact that, in aggregate, Claims and Incentives can have substantial impacts on cashflow – particularly as many of these reliefs are instantaneous or near-term compared to the long timescales of such developments.

**Patent Box:**
Complementary to the existing R&D regimes is the Patent Box scheme, which offers a 10% effective tax rate for relevant IP profits. This relief exists for patented products (e.g. equipment supplied to a CCUS or hydrogen plant) as well as patented process developments.




**Government grants:**
The UK Government is supporting Net Zero projects through the Industrial Decarbonisation Strategy, which includes £170m from the Industrial Strategy Challenge Fund.

**R&D incentives:**
These projects are typically technologically challenging. Therefore, a high proportion of the activities would be expected to qualify.

The **R&D Expenditure Credit (RDEC)** is currently 13% of qualifying revenue expenditure. This could relate to e.g. initial expenditure on an asset, or development costs incurred by a supplier.

**R&D Allowances (RDAs)** provide a 100% deduction for qualifying capital expenditure (e.g. core design/engineering activities on an asset).

**Capital allowances:**
The bedrock of tax incentives for capital expenditure in the UK is Capital Allowances where incentives exist for plant, equipment, buildings, structures, know how etc. In addition the UK Government recently announced new tax reliefs including a temporary 130% super-deduction for expenditure on new plant and machinery, and the introduction of eight Freeports where tax breaks will apply.

● Government grants ● R&D incentives
● Capital allowances ● Patent Box

**KPMG look forward to discussing the potential impact of these incentives and reliefs with your finance / tax teams. We are keen to ensure that you maximise the full range of financial support that is available from the UK Government.**


**Contact us**

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