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# Client Briefing Note

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## Feed in Tariffs – Income Tax

Much of the marketing strategy surrounding the domestic installation of a renewable energy device surrounds the provision of a 'tax-free' stream of cash over the next 20 – 25 years. Feed in Tariffs (FITs) could guarantee you income for every kW exported to the grid and as a bonus your electricity costs are reduced to nil.

The purpose of this note is to consider and summarise the tax position on FIT income and the basis for any possible claim to treat the income as exempt from tax.

Firstly, the legislation is contained in Income Tax (Trading and Other Income) Act 2005. ITTOIA 2005 s782A states that there is no liability to income tax if the system is installed near a domestic premises and the intention is that the electricity generated does not significantly exceed the amount consumed by the premises.

"Domestic premises" means premises used wholly or mainly as a separate private dwelling, and "microgeneration system" means the capacity to generate electricity is no greater than 50 kilowatts and the generation of that electricity relies wholly or mainly on a technology from the list included in Energy Act 2004. This covers biomass, photovoltaics, wind, solar and geothermal technologies, as well as others.

To summarise this, in order to qualify for tax-free FITs:

- The system must be at or near your private dwelling house
- You must intend that production of electricity does not 'significantly' exceed consumption of the dwelling house. The term 'significant' has been defined by HMRC in their Business Income Manual as a 20% excess

- The microgeneration technology must be on the Energy Act list
- The capacity of the device must not exceed 50kW

In the event that the conditions in S782A ITTOIA 2005 are not met, the FIT receipts will be liable to tax and HMRC would expect the taxpayer to notify chargeability and complete a Self Assessment Tax Return, to deal with the payment of the tax liability.

## Businesses

If you install the system for business use, all income received from selling electricity is liable to be taxed as income. Electricity consumed by the business will reduce the level of tax deductible expenditure incurred. Having said this, the costs associated with the purchase of the Microgeneration system should qualify for Capital Allowances. Possible recovery of VAT incurred on the purchase of the system is a further attraction for the business user.

Whilst the potential tax exemption for FIT income is attractive, there are various conditions for this to apply and each case will require to be reviewed to establish if the criteria is met. There can be advantages in terms of cash flow and tax relief in acquiring the system through a business. Every situation is different and we would be pleased to discuss your plans, ownership structure and other options, to minimise your tax burden and optimise your FIT return.

If you require further information please contact Mairi Drummond or Mark Thompson on 01573 224391 or email [mairi.drummond@renniewelch.co.uk](mailto:mairi.drummond@renniewelch.co.uk) or [mark.thompson@renniewelch.co.uk](mailto:mark.thompson@renniewelch.co.uk).

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