Clemence Hoar Cummings
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Going Green

A Guide to UK Eco Taxation

Why should businesses go green?

The evidence of the impact of human activity on the environment is clear to see, from rising temperatures to plastic pollution in our oceans, it is difficult to deny that our planet is experiencing a significant threat to its future.

The UN's latest climate report said that it is 'now, or never' if we are going to act in time to reduce emissions and pollution.

> **"Everyone has a role to play in improving the environment, not least businesses and those who advise them."**

However, beyond the desire to save the environment, there are a growing number of financial incentives and reasons why businesses should become more environmentally friendly.

A significant part of the savings comes from the latest eco-tax rules being introduced by the Government, which seek to change the behaviour of businesses, while also raising revenue for the nation.

Within this guide, we will take you on a journey through the reliefs and steps that you can take to go green and reduce your tax burden in the process.

Tax benefits of electric cars

The last few years have seen a sudden surge in the number of electric cars on the road.

Many new electric vehicle owners will have made their purchase with the environment in mind, but there are also considerable tax and cost savings that can be made.

Benefits in Kind

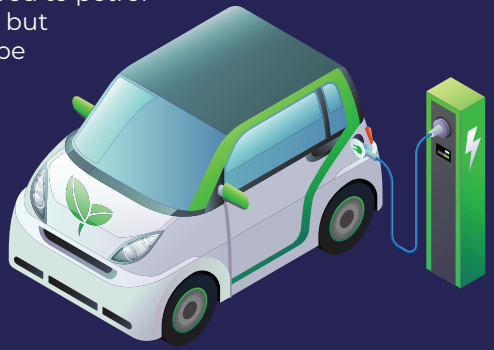
If you provide a car to an employee and it is also available for their private use, then it will be viewed as a taxable benefit and will be taxed through Benefit in Kind Tax (BIK). This attaches a monetary value to the private use of the vehicle and then charges tax based on several factors, including:

- The CO2 emissions it produces.
- The list price (P11D value) of the car before non-taxable items and after optional extras.
- The type of fuel the car runs on.
- The tax rate you are in based on your annual income.

There are two separate BIK tables, one for those driving a car registered after 6 April 2020, and one for those that drive a vehicle registered before that date, which account for changes in emissions standards.

The BIK rate has risen from two to three per cent in the 2025/26 year, increasing by one per cent annually until it reaches five per cent in 2027/28. It then increases by two per cent annually, reaching nine per cent in 2029/20.

Choosing to purchase an electric fleet could still provide significant BIK savings compared to petrol and diesel vehicles, but businesses should be aware of planned increases in tax rates.



Capital Allowances

Unlike other cars, electric cars qualify for first-year allowances. Electric cars continue to qualify for 100 per cent first-year allowances, allowing businesses to deduct the full cost of the vehicle from their profits before tax in the accounting period when the vehicle is purchased.

This incentive has been extended and is available for expenditures incurred up to 31 March 2026 for Corporation Tax purposes and 5 April 2026 for Income Tax purposes.

Because you are likely to be able to reduce your pre-tax profit, you may want to consider in which tax year you make the purchase. Therefore, the benefits of buying an electric car may be greater in a year with higher profits.

You can claim Capital Allowances when buying outright or with a hire-purchase agreement.

Personal Contract Purchase (PCP) is more complicated and will usually be considered a finance lease and does not normally qualify for first-year Capital Allowances.

As a result, there can be significant tax advantages to opting for a hire-purchase agreement, rather than a PCP arrangement when buying an electric car for your business on finance.

Nevertheless, there are limited circumstances where the detail of a PCP agreement means it would be eligible for first-year Capital Allowances. This can be the case where the balloon payment element is below the expected future market value of the vehicle.

No matter how you purchase the vehicle you must be aware that should you subsequently sell the car, there will be a tax charge on the amount received that will need to be calculated.

Reclaiming VAT on a purchase

If you're a VAT-registered business and the vehicle is used solely for business, you can reclaim the VAT. However, if used for both personal and business trips, so most businesses can't use this method.

Therefore, reclaiming VAT on the purchase of an electric car is only likely to apply in the case of pool vehicles or taxis.

Tax on the lease of an electric car

Where you choose to lease an electric car for your business, you can deduct that cost from your taxable profits in proportion to your business use.

This will allow you to spread the cost of running an electric vehicle, but you will not benefit from the significant relief afforded by first-year Capital Allowances that come with buying a car.

Nevertheless, there are benefits to leasing, rather than purchasing, an electric car, particularly when it comes to battery technology.

Currently, the performance of electric car batteries degrades over time and the cost of replacement can equate to a significant element of the overall value of the vehicle in future. If you choose to lease, you will avoid this issue.

Reclaiming VAT on a lease

Whether a car is electric or not, there is a 50 per cent block on input VAT recovery if the leased car is available for combined private and business use.

If it is for business use only, then 100 per cent of the VAT can be reclaimed.

Claiming mileage on an electric car

If you are leasing the electric car through your business, you cannot claim the mileage rate at all. This is different if it is a car provided by your employer where you can claim 5p per mile.

However, if you pay for the lease or own the electric car personally then you would still claim the relevant mileage rate of 45p/25p irrespective of the fact it's electric. If charged at home, you can also claim 5p a mile even if the business pays for the lease.

Vehicle Excise Duty on electric cars

From 1 April 2025, electric vehicles (EVs) will no longer be exempt from Vehicle Excise Duty (VED).

New zero-emission cars registered on or after this date will incur a first-year rate of £10, followed by the standard annual rate of £195. Additionally, EVs with a list price exceeding £40,000 will be subject to the Expensive Car Supplement, adding £425 annually for five years, resulting in a total annual VED of £620 during that period.

However, you have to tax your vehicle when you buy it and then renew your electric car road tax every 12 months, despite having nothing to pay.

Installing charging points

You can claim back the VAT element of a charging point if you are registered for VAT. You can also deduct the cost of a charging point in proportion to your business use from your profits.

If you have business premises, the Government also offers a scheme to help with the cost of the installation of electric car chargers at those premises.

Further details of this scheme are ***here***.

Other benefits of going electric

- **Congestion charge exemptions** – Electric vehicles are exempt from congestion charging and clean air zone charges. However, starting from 25 December 2025, these exemptions will be removed, and EVs will be subject to the standard charges.
- **Electric charge points and charging costs** – Any business that installs charging points for electric vehicles between now and 31 March 2026, can claim a 100 per cent first-year allowance for these costs.
- **Electric vans** – The taxable benefit for having the private use of a zero-emission van has been nil since April 2021, providing a tax-efficient option for businesses.
- **Salary sacrifice** – Where an electric car is provided under salary sacrifice, the optional remuneration rules do not apply.

Capital Allowances

Capital Allowances are a great way of reducing the amount of Corporation Tax that a company pays, while also investing in new plant and machinery for your business.

Annual Investment Allowance

The Annual Investment Allowance (AIA), gives a deduction of 100 per cent for qualifying plant or machinery expenditure against a business's profits.

Most tangible capital assets purchased or leased by a business are considered plant and machinery for the purposes of claiming Capital Allowances.

When it comes to eco-friendly investments, this includes the purchase of solar panels and other energy-saving devices.

Unlike some Capital Allowance schemes, the AIA covers unincorporated businesses and can also be claimed against second-hand and refurbished equipment.

The AIA limit of £1 million is now permanent.

With the limit now permanently set at £1 million, businesses can plan their investments without the need to accelerate expenditure to benefit from higher allowances.

Enhanced Capital Allowances

One of the key parts of this tax relief is the first-year allowance. Like the AIA, where an asset qualifies for this allowance, you can deduct its full cost from your profits before tax.

You can claim 'enhanced Capital Allowances' – a type of first-year allowances – for a wide range of eco-friendly improvements to your business, including:

- Environmentally beneficial and energy-saving technologies.
- Electric cars and cars with zero CO2 emissions.
- Zero-emission goods vehicles.
- Equipment for electric vehicle charging points.

To qualify for this relief the equipment must be new and unused. You also cannot typically claim on items your business buys to lease to other people or for use within a home you let out.

You can claim the Annual Investment Allowance (AIA) in addition to the first-year allowance.

Writing Down Allowances

If you do not claim all the first-year allowance you're entitled to, you can claim part of the cost in the next accounting period using writing down allowances.

You would typically use writing down allowances instead if you've already claimed AIA on items worth a total of more than the AIA amount or the item does not qualify for AIA.

Plastic Packaging Tax

Since 1 April 2022, businesses have faced a new Plastic Packaging Tax (PPT) that affects plastic packaging manufactured in or imported into the UK, which does not contain at least 30 per cent recycled plastic.

This rule could affect lots of organisations that use plastic packaging to protect and secure their goods. Those affected by the tax are charged £223.69 per metric tonne of plastic used.

What is subject to the PPT?

When a chargeable plastic packaging component is produced in the UK by a person acting in the course of a business, or where it is imported into the UK on behalf of such a person, a PPT charge is created.

The charge only applies to 'finished' products', i.e., those that have undergone a last substantial modification, or in cases where that happens when the component is packed or filled, its last substantial modification before being packed or filled, containing, or protected by a 'packaging component'.

This means that single-use packaging products for use by a consumer or user containing any waste or commodity, such as plastic bags, bin liners, nappy sacks, and disposable cups, fall within the scope of this charge.

However, the wide definition of plastic packaging is challenging as it also covers items not typically seen as packaging, including reusable items such as crates made of plastics and Intermediate Bulk Containers that are common in the transport of many goods.

The PPT applies to plastic packaging components manufactured in or imported into the UK that do not contain at least 30 per cent recycled plastic. However, transport packaging used to import goods into the UK, such as reusable plastic crates, pallets, and containers, is exempt from the tax.

The PPT does not apply to plastic packaging designed for the presentation of goods, such as shop fittings or stands, provided these items are intended for long-term use and are not discarded after the sale of the goods.

What plastics are affected by the Plastic Packaging Tax?

The tax applies to plastic packaging components that contain less than 30 per cent recycled plastic. This includes biodegradable, compostable, and oxo-degradable plastics, as they are not exempt from the tax.

Importers and manufacturers will need to consider each component of their packaging separately, even if they form a single product.

As an example, a plastic contained ready meal would need to consider the tub, the film that covers the meal and any plastic cutlery included within the packaging.

Packaging that contains multiple materials but contains more plastic by weight than any other single substance will be a plastic packaging component for the purposes of the tax, according to the latest guidance.

It will be the responsibility of the producer or importer to prove to HM Revenue & Customs (HMRC) that packaging components containing plastic are not subject to the tax by demonstrating that the component is not entirely plastic.

Are any components exempt from the Plastic Packaging Tax?

HMRC has confirmed that four categories of are exempt from the tax, regardless of how much recycled plastic they contain:

- Plastic packaging manufactured or imported for use in the immediate packaging of a human medicinal product.
- Transport packaging used on imported goods.
- Packaging used as aircraft, ship, and rail stores.
- Components that are permanently designated or set aside for use other than packaging use.

There is also a deferral of liability to the PPT if the product is exported and meets the direct export condition.

“The packaging on products that meet this condition can defer the payment of the tax for up to 12 months.”

Do I have to register for the Plastic Packaging Tax?

You must register for PPT if you are a producer or importer that handles more than 10 or more tonnes of plastic packaging over a 12-month period. This includes non-UK resident businesses.

Although some forms of plastic are exempt, as highlighted above, they must still be factored into the total use of plastic packaging to deter-mine if a business must register for the tax.

Registration is required if:

- A business expects to manufacture or import at least 10 tonnes of plastic packaging in the following 30 days. In that case, registration is required within 30 days of the first day that this condition is met: or
- A business has manufactured or imported at least 10 tonnes of plastic packaging in 12 months ending on the last day of a calendar month.

In the latter case, the business becomes liable for PPT from the first day of the next month and must register by the first day of the subsequent month. In the first year of the tax, a business only needs to register for the tax when the amount of plastic packaging exceeds 10 tonnes in 12 months.

If either of these conditions is satisfied, registration is required even if a business' packaging is not chargeable, and it does not have to pay any tax. Businesses registered for PPT must also complete and submit quarterly returns.

> **"Group Companies can have one registration, providing certain criteria are met."**

If you are liable for PPT you must also highlight this on any invoice issued to a business customer, including the amount of PPT that has been paid on the packaging concerned.

This will initially be a voluntary requirement but could become mandatory in future. Although it is the importer or manufacturer of packaging components that are primarily liable for PPT, others in the supply chain can be made secondarily, jointly, and severally liable for the tax where they know or ought to have known that PPT has not been paid, which is why it is important to include PPT on invoices and consider your contracts with customers and suppliers.

If plastic components are imported using incoterms, all parties must be aware of who is responsible for PPT.

HMRC has issued guidance on the example due diligence checks that businesses should be undertaken, which is available ***here***.

Climate Change Levy

Businesses in the UK must pay an environmental tax charged on the energy that they use known as the Climate Change Levy (CCL).

This tax was created to encourage businesses to be more energy-efficient, as part of the Government's efforts to reach net-zero.

The CCL primarily affects businesses in the industrial, public services, commercial and agricultural sectors.

Generally incorporated into a business's existing energy and gas bill, it is a levy that can add costs and is often a driver for reducing energy usage and wastage.

> **"It is charged on 'taxable commodities' for heating, lighting and power and is paid at either the main rate or Carbon Price Support rate."**

Main rate

Businesses are charged CCL at the main rate on their electricity, gas and solid fuel use. This will be listed on your gas or electricity bill.

This affects lots of organisations, although charities engaged in non-commercial activities and businesses that consume energy below the de minimis limit (less than 33kWh electricity and/or 145kWh gas a day) are typically exempt from this charge.

Carbon Price Support (CPS)

CPS is available to a small number of businesses with power or heat-generating stations.

If you generate your own energy and make money through the Feed-in Tariff, it's unlikely you will have to pay the levy since you'll be classed as a small generator.

Can you reduce the CCL?

It is possible to pay a reduced main rate on CCL charges if you enter into a Climate Change Agreement (CCA) with the Environment Agency.

This reduction is available to energy-intensive businesses who sign this voluntary agreement that aims to reduce use and CO2 emissions.

Businesses which agree to be bound by a CCA will receive a reduction of 90 per cent in the CCL rate paid on electricity bills and a 65 per cent reduction on all other fuels. However, to be eligible, the business will have to improve its energy efficiency and lower its average energy consumption.

To demonstrate that this has been achieved you are required to measure and report your business's energy use and carbon dioxide emissions against targets over four, two-year terms.

An easier alternative

As the CCL is charged against the energy and fuel that your business uses the most obvious method for reducing it is to invest in energy-saving equipment and techniques.

This could include:

- Turning off equipment when not in use.
- Switching to lower energy lighting.
- Installing light sensors.
- Lowering your heating.
- Investing in insulation for your premises.
- Purchasing energy-efficient machinery.

What does the EII scheme do?

The scheme enables businesses with high electricity usage to apply for relief or compensation on some of their expenses, particularly Renewables Obligation and Feed in Tariff support.

Not only does this present the UK as an appealing investment destination for energy-intensive businesses, but it also urges larger electrification to reduce emissions as part of the green industrial revolution.

Additionally, it will now also deliver support to companies that manufacture batteries for electric vehicles.

Who is eligible to apply?

To apply, your business must:

- Produce a product in the UK within an eligible sector.
- Pass a 20 per cent electricity intensity test.
- Not be an Undertaking in Difficulty (UID).
- Have no less than two quarters of financial data.
- Include evidence of the amount of electricity used to manufacture the product for at least three months.

Learn more about applying for the scheme ***here***.

Carbon Credits – What are they and why do they matter?

A carbon credit is a generic term for a tradable certificate that represents either the permanent removal of a tonne of CO2e from the atmosphere or the avoidance of one tonne being emitted.

They are an attempt by national and international organisations to prevent the growth of green-house gases and reach net-zero targets.

In the UK carbon credits are managed via the UK Emissions Trading Scheme, which operates under a 'cap-and-trade' approach.

This sees it set a maximum level for total emissions, and every unit of emissions up to this maximum is considered to be part of a system of tradeable allowances.

Cap-and-trade systems use a free-market economy process that doesn't seek to control how and where emissions are created, but rather allocates a financial value to each unit of emissions and lets the market do the rest.

Within this cap, participants are given free allowances and/or buy emission allowances at auction or on the secondary market which they can trade with other participants as needed.

Each year, installation operators and aircraft operators covered by the scheme must surrender allowances to cover their reportable emissions.

Every year the overall cap is lowered, meaning the cost of emissions allowances goes up for businesses, thereby incentivising investment in less polluting technologies and cutting emissions.

The UK ETS applies to three specific areas of the UK economy:

- Energy-intensive industries;
- Power generation; and
- Aviation.

You can opt out of the UK ETS if your organisation is classed as a small emitter or a hospital or service provider for hospitals, in which case you need a hospital or small emitter (HSE) permit.

Organisations qualify as 'small emitters' if they:

- Emit less than 25,000 tonnes of carbon dioxide equivalent (CO2eq) each scheme year in the relevant period.
- Have a total rated thermal input of fewer than 35 megawatts (MW) in the relevant period (if applicable).

Organisations do not automatically qualify for an exemption, even if they meet the criteria, and those carrying out activities in the scope of the UK ETS will need a greenhouse gas emissions permit, which can be obtained via the ETSWAP portal on the Environment Agency's website.

This UK ETS refers to each 'carbon credit' as a UK allowance or UKA. Like similar carbon credit schemes, this gives an organisation permission to emit one tonne of carbon dioxide equivalent or CO2e.

"To help businesses calculate their allowance, the UK Government publishes spreadsheets allowing you to convert emissions-intensive activities into CO2e."

There are several ways that businesses can produce tradeable UKA that either offset or reduce their carbon emissions including:

- Investment and implementation of energy-saving technology.
- The planting of trees.
- The restoration of peatlands.

The UK ETS can be complex and so it is best to seek advice if you are required to obtain a permit.

Cost savings from using refurbished/reused equipment and materials

So far, we have focused purely on the tax savings for businesses and their employees, but there are several ways that businesses can save money by investing in refurbished/reused equipment and materials.

With many businesses struggling with an ongoing cost crisis, using refurbished or second-hand equipment could represent a significant saving while helping to reduce waste, but it is not without risk.

Here are some of the benefits:

Availability – One of the key issues that many businesses are facing at the moment is the availability of new equipment and materials. Issues with international shipping and global supply lines brought on by recent crises have meant that newly produced goods are in high demand and, subsequently, command a higher price than before. Buying nearly new or refurbished goods could cut this cost considerably and give businesses immediate access to the goods they require.

Testing – Most refurbished and reused components, materials and equipment are extensively tested before they are sold, and many remanufacturers will be willing to offer warranties on the goods they supply. However, it is worth checking your rights in respect of these goods to make sure that they can returned or refunded if something isn't to your requirements.

Performance – There is an assumption that equipment that is several years old will not be able to perform as well as the latest equipment, but the reality often is that the differences are minor and, in most applications, unless a specific function is required, older refurbished equipment should perform nearly as well the newest model. In some cases, small changes can even be made to boost performance to match your requirements.

Reducing waste – By purchasing used and refurbished goods you are preventing more items from going to landfill. Although this doesn't offer an immediate financial benefit to you, it can be a great way to demonstrate to your customers and clients that you are doing your bit for the environment.

Cutting your carbon footprint – Creating new components, materials and goods uses an immense amount of energy, most of which is derived from non-renewable energy sources. The production of steel, aluminium and plastics represent three of the top five worst producers of greenhouse emissions worldwide. Choosing to purchase refurbished equipment reduces the demand for new goods. This can then go towards an organisation's carbon accounting if they are required to record their carbon footprint.

Significant cost savings – Above all of these reasons, buying refurbished could offer significant cost savings over buying new. Purchasing used and refurbished goods could help to free up money elsewhere in your business that can be used to focus on your priorities and achieve growth.

Tax implications of buying used or refurbished equipment

Although buying reused or refurbished equipment can help you reduce the size of your investment, it may prevent you from using certain Capital Allowance schemes to offset the cost against your profits.

This should be considered beforehand, as it may eliminate or an effective method of reducing the amount of Corporation Tax that you pay.

A look at the future of green taxation

Up until now, the tax authorities of many nations have held back on enforcing tough green measures on businesses.

With concerns about low productivity and rising costs, authorities like the UK's HMRC have shied away from imposing more radical actions, such as a dedicated carbon tax.

However, given the most recent climate and environmental reports, there is now a growing pressure from the public, charities, organisations and Governments, to press ahead with new approaches to taxation that seek to influence the behaviour of businesses and individuals to meet net-zero emissions targets and create a better environment.

In the UK, according to the Office for National Statistics (ONS), environmental tax revenues only represent a small percentage of total revenue from taxes and social contributions – just 6.9 per cent.

Green taxes, therefore, offer a revenue-raising opportunity for the Government in future, which cannot only help to reduce emissions and our impact on the environment, but also raise money to invest in environmentally-focused technologies and infrastructure.

> **"Although nothing concrete has been announced yet, businesses should watch this space carefully and be prepared to react to the introduction of new taxes linked to their environmental activities."**

Time to go green?

If you would like to learn more about the tax and financial benefits of investing in environmental improvements within your business, please speak to our team today.

1 – 5 Como Street, Romford, Essex, RM7 7DN

T: 01708 333300 **E:** info@chc.uk.com

chc.uk.com

For information of users: This material is published for the information of clients. It provides only an overview of the regulations in force at the time of publication (April 2025), and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.