

Briefing Note: Tax relief for contributions to flood defence schemes

What did the Chancellor announce?

The Government will legislate to ensure business contributions to Flood and Coastal Erosion Risk Management (FCERM) projects are tax deductible. The measure will apply to contributions made from January 1st 2015. The Government will legislate for the measure in Finance Bill 2015.

What is the aim of the measure?

To encourage private sector investment in flood resilience projects, via “partnership funding schemes” with Government. The tax measure was announced this week alongside the allocation of £2.3bn of Government investment in flood defence schemes. This round of Government spending is expected to generate more than £600m additional investment through partnership funding, including from business.

How does it work?

The deduction will be available to incorporated businesses (companies) and unincorporated businesses (partnerships, sole traders, etc). The former pay corporation tax, the latter pay tax through the income tax regime.

The measure ensures that when a business invests in a partnership funding scheme, it can deduct its contribution from its taxable profits for corporation tax purposes (if it is incorporated) or income tax purposes (if unincorporated). This effectively reduces the tax the business pays.

EXAMPLE: A company invests £500k in a partnership scheme in a year when it makes £1m profit. If it is *unable* to deduct that contribution from its taxable profits, it will have a corporation tax liability of £200k (20% of £1m). If it is able to deduct the contribution, its taxable profits

will be £500k, so its corporation tax liability will fall to £100k (20% of £500k).

Are some payments deductible already?

Yes. Currently, business contributions to a partnership schemes follow general tax principles and therefore some are tax deductible, while others are not, depending on the circumstances of the contribution. This measure will expand the tax relief to ensure that virtually all contributions are tax deductible.

Will the measure only apply to financial contributions?

No. The deduction will also apply to contributions of services. So if a business donates labour to an FCERM scheme the cost of the labour would be deductible.

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