



Information Note

Tax Relief for businesses that contribute to Flood and Coastal Erosion Risk Management (FCERM) projects

Is tax relief available to businesses that make contributions FCERM projects?

Business contributions to Flood and Coastal Erosion Risk Management (FCERM) projects are tax deductible. The measure applies to contributions made from January 1st 2015 and was legislated in the 2015 Finance Bill.

What is the aim of the measure?

To encourage private sector investment in flood resilience projects, via recognised partnership funded schemes for qualifying FCERM projects.

What is a partnership funded FCERM scheme?

Central government provides 'Flood Defence Grant in Aid' (FDGiA) funding to FCERM projects based on the benefits they are expected to achieve. These benefits are used to calculate the percentage of the overall project costs that can be funded by FDGiA. The remaining funding required (or the 'funding gap') is secured by those managing / delivering the FCERM scheme, from a variety of sources. When the project secures at least 100% of its overall costs in total, FDGiA is then made available. Further details on the partnership funding model can be found here:

www.gov.uk/government/publications/flood-and-coastal-resilience-partnership-funding

What is a qualifying FCERM project?

Qualifying projects are those for which either:

- An English risk management authority has applied to the Environment Agency for a grant under section 16 of the Flood and Water Management Act 2010 in order to fund the project. 'English risk management authority' has the meaning given by section 6(14) of the Flood and Water Management Act 2010.

OR

- The Environment Agency has determined that it will carry out the project.

AND

If the Environment Agency has allocated funding by way of FDGiA to the project. Entirely privately funded FCERM projects are not eligible for this tax relief.

How does the legislation 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).
- Alternatively, the company could justify investing a greater amount, due to the reduction in its tax liability as a result.

Are some payments deductible already?

Yes. Currently, business contributions to partnership funding schemes follow general tax principles and therefore some are tax deductible, while others are not, depending on the circumstances of the contribution. This measure expands 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. Therefore if a business donates labour to an FCERM scheme the cost of the labour would be deductible.
- Land, plant or machinery that is used, in the realization of the project, for the purposes of FCERM.
- A right over land that is used, in the realization of the project, for the purposes of FCERM.

PLEASE NOTE:

- This information note is not intended to provide, and should not be relied on for, tax advice.
- Tax information and advice should be sought from a suitably qualified tax expert/consultant before seeking to apply this legislation.
- The full legislation relating to 'Relief for contributions to flood and coastal erosion risk management projects' (Schedule 5 of the Finance Act 2015) can be found here:
www.legislation.gov.uk/ukpga/2015/11/schedule/5/enacted
- For further details please contact James Ewington at HMRC: james.ewington@hmrc.gsi.gov.uk; 03000 553788.