

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 5: Mineral extraction allowances

Chapter 2: Qualifying expenditure on mineral exploration and access

Overview

1376. This Chapter defines what expenditure on mineral exploration and access is qualifying expenditure. The expenditure must be capital and it must be incurred for the purposes of the trade. This Chapter is subject to the rules in Chapter 4.
1377. [Section 400](#) gives conditions for the expenditure to be qualifying expenditure. It has rules if the expenditure is connected with the trade and also if the expenditure is incurred before the trade starts.
1378. [Section 401](#) gives rules for expenditure on mineral exploration and access incurred before the trade starts.
1379. [Section 402](#) gives rules for expenditure on plant or machinery for mineral exploration and access if the plant or machinery is disposed of before the trade starts.

Section 400: Qualifying expenditure on mineral exploration and access

1380. This section is based on section 102 and parts of sections 98(1), 105, 106, 107 and 120(2) of CAA 1990. It gives the conditions for expenditure on mineral exploration and access to be qualifying expenditure.
1381. There is a minor change. *Subsection (1)* requires that qualifying expenditure must be capital expenditure incurred for the purposes of the mineral extraction trade. The purpose test in subsection (1)(b) is not in section 105(1) of CAA 1990. But this does not affect allowances. This is because allowances are only available under section 98(1) of CAA 1990 if the purpose test is met. See *Change 47* in Annex 1.
1382. *Subsection (2)* treats expenditure incurred on mineral exploration and access in connection with a mineral extraction trade as being incurred for the purposes of the mineral extraction trade. This could, for instance, allow capital expenditure incurred on mineral exploration and access to be qualifying expenditure if the start of a mineral extraction trade depended on the mineral exploration and access being successful. In such a case the expenditure is connected with the new trade but it might be difficult to say that all of the expenditure was incurred for the purposes of the trade.
1383. The rest of the section deals with limitations on subsection (1) if “pre-trading expenditure” on mineral exploration and access is involved. Section 395 signposts limitations in other Chapters.

*These notes refer to the Capital Allowances Act 2001
(c.2) which received Royal Assent on 22nd March 2001*

1384. *Subsection (4)* avoids some duplication that exists in CAA 1990 as to the time at which the qualifying expenditure is treated as incurred. See *Note 51* in Annex 2.

Section 401: Pre-trading exploration expenditure

1385. This section is based on section 107 of CAA 1990. It deals with mineral exploration and access expenditure, other than on plant or machinery, incurred before a person starts a mineral extraction trade.
1386. The section limits the qualifying expenditure if there are relevant receipts before the trade starts. It also limits qualifying expenditure if mineral exploration and access ceases at the source concerned before the trade starts.

Section 402: Pre-trading expenditure on plant or machinery

1387. This section is based on section 106 and part of section 156 of CAA 1990. It provides the only instance in which expenditure on plant or machinery can be qualifying expenditure under this Part. Such plant or machinery must have been sold, demolished, destroyed or abandoned before the person starts a mineral extraction trade. Where the plant or machinery is still owned when the trade starts relief is given under Part 2. See section 161.
1388. The section limits the qualifying expenditure if there are any receipts from the sale, demolition, destruction or abandonment of the plant or machinery before the trade starts. It also limits qualifying expenditure if mineral exploration and access ceases at the source concerned before the trade starts.
1389. There is a minor change. *Subsection (5)(c)* provides for a “relevant receipt” in relation to the abandonment of certain plant or machinery. Section 156 of CAA 1990 does not give an amount in respect of the abandonment of plant or machinery. This follows the change made in relation to section 61(2) and provides for the “relevant receipt” in such a case to be the insurance money or other compensation received. See *Change 10* in Annex 1.