

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 5: Mineral extraction allowances

Chapter 3: Qualifying expenditure on acquiring a mineral asset

Overview

1390. This Chapter defines when expenditure on acquiring a mineral asset is qualifying expenditure. The expenditure must be capital expenditure and it must be for the purposes of the trade. This Chapter is subject to the rules in Chapter 4.
1391. [Section 403](#) gives conditions for the expenditure to be qualifying expenditure. It points to exceptions and defines a term for use in this Chapter.
1392. [Section 404](#) prevents the value of land from being qualifying expenditure so far as it is not attributable to the value of mineral deposits.
1393. [Section 405](#) permits, in limited circumstances, some or all of the value excluded from qualifying expenditure under the previous section to become qualifying expenditure.
1394. [Section 406](#) prevents expenditure from getting relief twice under both the lease premium rules in section 87 of ICTA and as a result of this Chapter.

Section 403: Qualifying expenditure on acquiring a mineral asset

1395. This section is based on parts of sections 98(1) and 105(1) and (3) of CAA 1990. It gives the conditions for expenditure on acquiring a mineral asset to be qualifying expenditure. It must be capital expenditure and incurred for the purposes of the mineral extraction trade.
1396. There is a minor change in subsection (1)(b) as in section 400(1)(b). See paragraph 1381 above and *Change 47* in Annex 1.
1397. *Subsection (2)* signposts two limitations on subsection (1) later in this Chapter. Section 395 signposts limitations in other Chapters.

Section 404: Exclusion of undeveloped market value of land

1398. This section is based on part of section 110 of CAA 1990. It prevents the underlying value of land from being qualifying expenditure.

Example

Assume this section applies to the purchase by B of an interest in land for £1,000. The land would be worth £200 if there were no mineral deposits in the land.

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

Subsection (1) stops £200 from being qualifying expenditure.

The remaining £800 might be qualifying expenditure but other provisions in this and the next Chapter might mean that the qualifying expenditure is less than £800.

1399. *Subsection (1)* omits the reference in section 110(1) of CAA 1990 to the land including a source of mineral deposits as that follows from the requirement that the interest in the land is a mineral asset.
1400. *Subsection (5)(b)* contains a test by reference to general development orders in England; section 110(3)(b) of CAA 1990 refers to Wales as well. This change has no practical effect at present. See *Change 48* in Annex 1.
1401. *Subsection (7)* deals with something that is not explicit in CAA 1990. If A transfers a mineral asset to B and they successfully elect to treat B as acquiring the mineral asset on a “step-in-shoes basis” from A then this section does not require B to reduce that “step-in-shoes basis”.

Section 405: Qualifying expenditure where buildings or structures cease to be used

1402. This section is based on part of section 110 of CAA 1990. It applies if a part of the undeveloped market value of land is attributable to buildings or structures that permanently cease to be used. If the conditions in the section are satisfied some or all of that part of the undeveloped market value is treated as qualifying expenditure.

Example

Assume that in the example in paragraph 1398 above:

£50 of the £200 (that the land would be worth without the mineral deposits) is attributable to a building on the land;

B gets no capital allowances in relation to that building; and

the building becomes permanently disused by reason of B demolishing it.

This section allows the £50 to be qualifying expenditure.

Section 406: Reduction where premium relief previously allowed

1403. This section is based on section 111 of CAA 1990. It reduces acquisition expenditure to the extent that relief on it has already been obtained under the lease premium rules in section 87 of ICTA. This prevents double relief for the same expenditure.