

# CAPITAL ALLOWANCES ACT 2001

---

## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS

#### *Glossary*

#### **Part 5: Mineral extraction allowances**

##### **Overview**

1349. This Part provides for mineral extraction allowances. These can be writing-down allowances or balancing allowances. It also provides for balancing charges.
1350. **Chapter 1:**
- provides that allowances are available to mineral extraction traders who incur qualifying expenditure;
  - defines “qualifying expenditure” and the other main terms that are used in Part 5; and
  - signposts the detail on qualifying expenditure in the next four Chapters and sets out general exclusions from qualifying expenditure.
1351. **Chapter 2** deals with qualifying expenditure on mineral exploration and access. It also deals with rules that apply if expenditure is incurred on mineral exploration and access before the mineral extraction trade starts.
1352. **Chapter 3** deals with qualifying expenditure on acquiring a mineral asset. It contains special rules if an interest in land is involved. These prevent the non-mineral value of land from being qualifying expenditure. They also prevent double relief through capital allowances and the lease premium rules in section 87 of ICTA.
1353. **Chapter 4** deals with second hand assets. It includes cases in which expenditure on acquiring a mineral asset is treated as if it was qualifying expenditure on mineral exploration and access. And it also includes cases in which qualifying expenditure is limited by reference to the circumstances of someone who previously sold the asset concerned.
1354. **Chapter 5** deals with other sorts of qualifying expenditure. These relate to certain works, contributions and post-cessation restoration expenditure.
1355. **Chapter 6** provides for the calculation of allowances and charges. Expenditure is not pooled. Allowances and disposal receipts reduce qualifying expenditure. Writing-down allowances are given at 10% a year on mineral asset expenditure or 25% on other expenditure on a reducing-balance basis. Disposal receipts may trigger balancing charges to recover allowances previously given. Balancing allowances are available when certain events occur.
1356. **Chapter 7** provides for giving effect to allowances and charges and other matters.

## **History**

1357. The Income Tax Act 1945 introduced mines, oil wells, etc. allowances (MOWA) for capital expenditure incurred by a person working a mine, oil well or other source of mineral deposits of a wasting nature. MOWA were limited to capital expenditure on mineral exploration and access or the construction of works likely to be of little value when the mineral source was no longer worked or a foreign concession came to an end. There was no relief for capital expenditure on acquiring the site of mineral deposits or the deposits themselves. In later years relief was extended to:
- overseas mineral rights (including land to the extent that its value was attributable to mineral deposits);
  - abortive exploration connected with a mineral extraction trade;
  - machinery and plant used for mineral exploration;
  - certain land overseas;
  - contributions to certain overseas buildings or works; and
  - sources of mineral deposits in the UK.
1358. MOWA were output-related. No relief was given until a source of mineral deposits was worked or abandoned. This was out of line with other capital allowances.
1359. In contrast mineral extraction allowances, introduced, following consultation, by FA 1986, are similar to other capital allowances. But they are not identical to other allowances:
- annual allowances are a percentage of the balance of qualifying expenditure – known as the reducing-balance basis – like plant and machinery (and patents and know-how); but
  - there is no pooling so – like industrial buildings and agricultural buildings – items of expenditure are dealt with separately.
1360. There were provisions in FA 1986 dealing with the transition from MOWA so that the MOWA provisions could be repealed instead of running on indefinitely. The main significance of these transitional provisions now is that they allow a recapture of excessive allowances to be made under this Part in respect of expenditure which originally qualified for MOWA. These provisions are dealt with in paragraph 88 of Schedule 3 (transitionals and savings).
1361. Since FA 1986 the main changes were in:
- FA 1996 which inserted section 118(2) of CAA 1990 dealing with purchases of an oil licence from a person who has not carried on a mineral extraction trade; and
  - FA 1997 which inserted section 115(2A) of CAA 1990 dealing with purchases of mineral assets if the previous trader had incurred deductible expenditure on mineral exploration and access and that expenditure was reflected in the value of the purchased mineral asset.

## **Structure of this Part**

1362. This Part:
- uses more Chapters for qualifying expenditure than are used in Part IV of CAA 1990 in order to make that material more accessible; and
  - follows the same broad structure of other Parts.

## **Chapter 1: Introduction**

### **Overview**

- 1363. This Chapter introduces mineral extraction allowances. They are given on qualifying expenditure and are only available to mineral extraction traders.
- 1364. [Section 394](#) sets out the basic conditions for entitlement to mineral extraction allowances and some definitions for this Part.
- 1365. [Section 395](#) gives the meaning of qualifying expenditure and points to more detailed definitions and exceptions regarding qualifying expenditure.
- 1366. [Sections 396](#) and [397](#) give the meaning of the key terms “mineral exploration and access” and “mineral asset”.
- 1367. [Section 398](#) is a tie-breaker rule if expenditure might otherwise be on both mineral exploration and access and on a mineral asset.
- 1368. [Section 399](#) sets out expenditure that cannot be qualifying expenditure.

### **Section 394: Mineral extraction allowances**

- 1369. This section is based on section 98(1) and parts of sections 105(1), 109(1), 121(1) and (2) and section 161(2) of CAA 1990. It provides that allowances are available to mineral extraction traders who have incurred qualifying expenditure and defines “mineral extraction trade”. This term is used in place of the slightly longer term “trade of mineral extraction” in CAA 1990. The part of section 121(2) of CAA 1990 that is not rewritten in this section is at paragraph 87 of Schedule 3 because that part of section 121(2) relates only to that provision.
- 1370. *Subsection (3)* omits the examples of geothermal energy presently in section 161(2) of CAA 1990. They are not needed. See *Note 46* in Annex 2.

### **Section 395: Qualifying expenditure**

- 1371. This section is based on part of section 105(1) and (3) of CAA 1990. It defines “qualifying expenditure” and indicates that there are two main classes of qualifying expenditure (on mineral exploration and access and on acquiring mineral assets).
- 1372. *Subsection (1)(c)* refers to amounts treated as qualifying expenditure on mineral exploration and access. In CAA 1990 these amounts are treated as expenditure on mineral exploration and access leaving to be inferred the fact that they are *qualifying* expenditure. See *Note 50* in Annex 2.

### **Sections 396 and 397: Meaning of “mineral exploration and access” and “mineral asset”**

- 1373. These sections are based on section 121(1) and 105(6) of CAA 1990.

### **Section 398: Relationship between main types of qualifying expenditure**

- 1374. This section is based on section 105(7) of CAA 1990.

### **Section 399: Expenditure excluded from being qualifying expenditure**

- 1375. This section is based on section 105(4) and part of section 105(5) of CAA 1990. It sets out expenditure which does not qualify for allowances under this Part so as to give in this Chapter an early indication of items that will not get allowances under this Part. For example, most expenditure on plant or machinery cannot be qualifying expenditure.

## ***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.
- 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.

### ***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.

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.

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

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.

***Chapter 4: Qualifying expenditure: second-hand assets***

**Overview**

1404. This Chapter treats, in certain cases, expenditure on a mineral asset as if it were expenditure on mineral exploration and access. The rate at which allowances are given for qualifying expenditure on mineral exploration and access is higher than for qualifying expenditure on a mineral asset. In certain cases the Chapter also limits, by reference to the position of previous owners of the asset, qualifying expenditure on acquiring an asset.
1405. **Section 407** treats part of the cost of a mineral asset as qualifying expenditure on mineral exploration and access if part of the value of the mineral asset is attributable to expenditure of “the previous trader” on mineral exploration and access.
1406. **Section 408** reduces, in certain cases, the cost of an interest in an oil licence acquired from someone who was not a mineral extraction trader. Some of the reduction may be treated as qualifying expenditure on mineral exploration and access.
1407. **Section 409** limits qualifying expenditure on an asset if it represents expenditure on mineral exploration and access incurred by a seller who was not a mineral extraction trader.

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

1408. **Section 410** limits qualifying expenditure if the mineral asset is an interest in a UK oil licence.
1409. **Section 411** limits qualifying expenditure if a “previous trader” has owned the asset concerned. The limit is to the previous traders unrelieved residue of expenditure.
1410. **Section 412** and section 413 prevent “groups” from increasing the capital expenditure on a mineral asset by means of intra-group transfers.

***Section 407: Acquisition of mineral asset owned by previous trader***

1411. This section is based on section 115 and parts of sections 113 and 114 of CAA 1990. There is a minor change in subsection (1)(a) as in sections 400 and 403 (paragraphs 1381 and 1396 above). See *Change 47* in Annex 1.
1412. **Subsection (5)(a)** treats part of the trader’s expenditure on acquiring the mineral asset as qualifying expenditure on mineral exploration and access in those cases if this section applies.
1413. **Subsection (5)(b)** makes a corresponding reduction to the trader’s expenditure on acquiring the mineral asset.

**Example**

Assume that:

- (a) mineral extraction trader B acquires for £1,000 a mineral asset that used to be owned by a previous trader P; and
- (b) P had incurred £50 capital expenditure on mineral exploration and access and this capital expenditure is reflected as to £100 (of B’s purchase price) in the value of the mineral asset.

£50 is the lower of the two amounts in (b). B is treated as incurring:

- (i) £50 of qualifying expenditure on mineral exploration and access; and
- (ii) only £950 on the purchase of the mineral asset – but it may not all be qualifying expenditure because other restrictions in Chapter 3 or 4 may apply.

1414. There is nothing in this section for section 115(2)(b) of CAA 1990 which is unnecessary. See *Note 52* in Annex 2.

***Section 408: Acquisition of oil licence from non-trader***

1415. This section is based on section 118(2) and sections 118(1) and 138A of CAA 1990. It sets out the proposition in section 118(2) after the necessary adaptations required by section 138A.
1416. **Subsection (1)** applies this section if:
- the trader acquires an interest in an oil licence the value of which is partly attributable to mineral exploration and access expenditure of the seller; and
  - the seller has not carried on a mineral extraction trade.
1417. There is a minor change in subsection (1)(a) as in sections 400, 403 and 407 (paragraphs 1381, 1396 and 1412 above). See *Change 47* in Annex 1.
1418. **Subsection (2)(b)** reduces the trader’s expenditure on acquiring the mineral asset by “E2”.



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

1419. *Subsection (2)(a)* treats the trader as incurring qualifying expenditure on mineral exploration and access of an amount that is capped at “E2”.

Example

Assume that:

mineral extraction trader, B, acquires an oil licence for £1,000 from S;

S is not a mineral extraction trader, but S has incurred expenditure of £50 on mineral exploration and access; and

it is just and reasonable to attribute £300 of B’s purchase price to the £50 spent by S.

B is treated as incurring:

£50 of qualifying expenditure on mineral exploration and access; and

only £700 (£1,000 - £300) on the purchase of the oil licence – but it may not all be qualifying expenditure because other restrictions in Chapter 3 or 4 may apply.

#### ***Section 409: Acquisition of other assets from non-traders***

1420. This section is based on sections 118(1) and 121(3) of CAA 1990. If the seller of an asset has not been a mineral extraction trader it caps the buyer’s qualifying expenditure on acquiring an asset, if that asset represents the seller’s expenditure on mineral exploration and access. The cap is the amount of the seller’s mineral exploration and access expenditure represented by that asset.

1421. There is a minor change in *subsection (1)(a)* as in sections 400, 403, 407 and 408 (paragraphs 1381, 1396, 1412 and 1417 above). See *Change 47* in Annex 1.

#### ***Section 410: UK oil licence: limit is original licence payment***

1422. This section is based on section 116 of CAA 1990. It caps the qualifying expenditure on acquiring an interest in a UK oil licence to the amount originally paid to obtain the oil licence (or a reasonable part of the original payment).

1423. *Subsection (4)* makes it explicit that the cap does not affect any part of the expenditure that is treated as qualifying expenditure on mineral exploration and access by the first two sections in this Chapter.

#### ***Section 411: Assets generally: limit is residue of previous trader’s qualifying expenditure***

1424. This section is based on sections 113 and 114 of CAA 1990. It prevents an increase in qualifying expenditure if the trader acquires an asset that, broadly, has previously been owned by another mineral extraction trader for the purposes of that earlier owner’s mineral extraction trade. The qualifying expenditure on acquiring the asset is limited to the residue of the previous trader’s qualifying expenditure.

Example

Assume that:

mineral extraction trader, B, buys a mineral asset for £1,000;

the mineral asset was previously owned by a previous trader, P; and

P’s residue of qualifying expenditure related to the asset is £500.

B’s qualifying expenditure cannot exceed £500.



1425. *Subsection (8)* makes it explicit that the cap does not affect any part of the expenditure that is treated as qualifying expenditure on mineral exploration and access by the first two sections in this Chapter.

***Section 412: Transfers of mineral assets within group: limit is initial group expenditure***

1426. This section is based on part of section 117 of CAA 1990. It prevents an increase of qualifying expenditure on a mineral asset through a transfer between companies under common control.
1427. This is done by limiting the acquiring company's capital expenditure on acquiring the mineral asset to the selling company's capital expenditure on acquiring that mineral asset. This restriction is wider, in one sense, than the restriction in section 411 because this restriction applies even if a previous trader has not owned the mineral asset. Both restrictions can apply to the same acquisition.

Example

Assume that parent company A sells a mineral asset (originally bought for £500) to its subsidiary B for its then market value of £1000.

This section limits B's capital expenditure to £500 – but it may not all be qualifying expenditure because other restrictions in Chapter 3 or 4 may apply.

1428. *Subsection (2)*, in referring to “just and reasonable apportionment”, is a minor change. See *Change 40* in Annex 1.
1429. *Subsection (5)* modifies the application of section 404 so that, broadly, the undeveloped market value of land is computed at the time the group first acquired the mineral asset. This is because the group's capital expenditure is effectively limited to the capital expenditure that the group incurred (ignoring group transfers) on acquiring the mineral asset.
1430. *Subsections (6) and (7)* make corresponding modifications of section 405 if subsection (5) has applied. They put the buyer in broadly the same position as if the buyer had owned the interest in land from the time that it was purchased by the first group company.

***Section 413: Transfers of mineral assets within group: supplementary***

1431. This section is based on part of section 117 of CAA 1990.
1432. *Subsection (2)(b)* makes explicit that section 412 does not apply if an election is made for “step-in-shoes” treatment to apply to the buying company in relation to the mineral asset. That treatment will reflect an earlier deduction for the undeveloped market value of land.
1433. *Subsection (4)* makes it explicit that the cap in the previous section does not affect any part of the expenditure that is treated as qualifying expenditure on mineral exploration and access by the first two sections in this Chapter.

***Chapter 5: Other kinds of qualifying expenditure***

**Overview**

1434. This Chapter deals with qualifying expenditure that is neither on mineral exploration and access nor on acquiring a mineral asset.
1435. **Section 414** permits expenditure on works to be qualifying expenditure if the works would have no value if:

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

- there were no mineral deposits; or
- the mineral deposits could not be worked.

1436. **Section 415** permits certain contributions, to works for the benefit of employees abroad, to be qualifying expenditure.

1437. **Section 416** permits certain post cessation restoration expenditure to be treated as qualifying expenditure that was incurred on the last day of trading.

#### ***Section 414: Expenditure on works likely to become valueless***

1438. This section is based on parts of sections 98(1), 105 and 161(2) of CAA 1990. Capital expenditure on the construction of certain works may be qualifying expenditure if the works would have little or no value if the source could not be worked.

1439. There is a minor change *in subsection (1)(b)* as in sections 400, 403, 407, 408 and 409. See *Change 47* in Annex 1.

#### ***Section 415: Contribution to buildings or works for benefit of employees abroad***

1440. This section is based on section 108 of CAA 1990. It provides that capital sums contributed to the cost of certain buildings or works, to be used essentially for the benefit of persons employed abroad, may be qualifying expenditure if connected with the working of a source outside the UK and the other conditions in the section are satisfied.

1441. There is a minor change *in subsection (1)(a)* as in sections 400, 403, 407, 408, 409 and 414 (paragraphs 1381, 1396, 1412, 1417, 1421 and 1439 above). See *Change 47* in Annex 1.

#### ***Section 416: Expenditure on restoration within 3 years of ceasing to trade***

1442. This section is based on section 109 of CAA 1990. It allows certain restoration expenditure to be qualifying expenditure provided it is incurred within three years of the mineral extraction trade ceasing. The expenditure must meet the condition that it would have been either qualifying expenditure or deductible as a trading expense if it had been incurred before the trade ceased.

1443. Allowances are only available in Part IV of CAA 1990 on qualifying expenditure that meets the purposes of the mineral extraction trade test in section 98(1) of CAA 1990. That purpose test is not reproduced in this section. This is a change that is favourable to the taxpayer. See *Change 47* in Annex 1.

### ***Chapter 6: Allowances and charges***

#### **Overview**

1444. This Chapter deals with allowances and charges on qualifying expenditure. There is no pooling of qualifying expenditure. Allowances may be balancing allowances or writing-down allowances. Writing-down allowances are given on a reducing-balance basis at rates of 10% on mineral asset expenditure and 25% in other cases. Disposal receipts may arise in respect of qualifying expenditure on the happening of certain events. Disposal receipts either restrict the allowances on that qualifying expenditure or result in balancing charges to recover excessive allowances. Balancing allowances are available on different kinds of qualifying expenditure in different circumstances.

1445. **Section 417** sets out whether an allowance is available or a charge will be made for a chargeable period.

1446. **Section 418** quantifies the allowance or charge.

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

- 1447. **Section 419** defines the term “UQE” used in the previous two sections.
- 1448. **Section 420** defines the term “disposal receipt” used in the earlier sections in terms of a “disposal value” to be brought into account.
- 1449. **Section 421** and section 422 provide for the circumstances in which, and the chargeable period for which, a disposal value is to be brought into account in relation to qualifying expenditure.
- 1450. **Section 423** and section 424 deal with the amount of a disposal value to be brought into account.
- 1451. **Section 425** deals with an additional case, the receipt of a capital sum, in which a disposal value is brought into account in relation to qualifying expenditure.
- 1452. **Sections 426 to 431** set out the periods in which a balancing allowance is available in relation to different kinds of qualifying expenditure.

***Section 417: Determination of entitlement or liability***

- 1453. This section is based on section 98(2) and (3) and section 100(1) of CAA 1990. It determines whether, in respect of qualifying expenditure, there is entitlement to an allowance or liability to a charge in a chargeable period. It is similar to section 55 in Part 2.
- 1454. There is no equivalent of sections 53 and 54 because qualifying expenditure is not pooled in this Part. The main factor common to the calculation of allowances in Part 2 is that writing-down allowances in this Part are also computed by applying a percentage to an amount which reduces from one chargeable period to the next – known as the reducing-balance basis.
- 1455. The meaning of “UQE” and “TDR” and when balancing allowances may be due are dealt with in detail later in the Chapter.

***Section 418: Amount of allowances and charges***

- 1456. This section is based on section 98(4) to (6) and section 100(2) and (3) of CAA 1990. It is similar to section 56. It determines the amount of entitlement or charge.
- 1457. *Subsection (4)* caps balancing charge(s) in respect of qualifying expenditure at the amount of allowances actually given on that qualifying expenditure. This can be expressed more directly than in Part 2 because pooling is not involved in calculating allowances and charges in this Part.
- 1458. *Subsection (6)* permits a person to claim less than the full amount of the allowance. See *Change 38* in Annex 1.

***Section 419: Unrelieved qualifying expenditure***

- 1459. This section is based on section 98(2) and (3) of CAA 1990.

***Section 420: Meaning of “disposal receipt”***

- 1460. This section provides a signpost to the provisions in this Part and elsewhere that deal with this term. “Disposal receipts” are the amount of disposal value that the mineral extraction trader is required to bring into account and they feed into the three earlier sections dealing with entitlement/liability, amount and “UQE” respectively.

***Section 421: Disposal of, or ceasing to use, asset***

1461. This section is based on section 99(1) of CAA 1990. It requires a disposal value to be brought into account on an asset being disposed of or permanently ceasing to be used for the purposes of the mineral extraction trade.

***Section 422: Use of asset otherwise than for permitted development etc.***

1462. This section is based on section 99(1) and (2) and section 110(3) of CAA 1990. It requires a disposal value to be brought into account if certain developments occur. This can happen without the mineral asset being disposed of or permanently ceasing to be used for the purposes of the mineral extraction trade.
1463. There is a minor change. *Subsection (4)(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.

***Section 423: Sections 421 and 422: amount of disposal value to be brought into account***

1464. This section is based on section 99(3) and section 26(1) of CAA 1990. It gives the amount of the disposal value to be brought into account if one of the previous two sections applies.
1465. CAA 1990 leaves readers to adapt section 26 of that Act for the purposes of section 99(1) of that Act. It is clear that not all of section 26 is relevant to section 99(1) but it could be time consuming to arrive at the necessary adaptations.
1466. This section contains a Table setting out the disposal value so that reference to provisions in Part 2 and adaptations are not required in this Act.
1467. Item 2 of the Table is based on section 99(3) of CAA 1990. It refers to the disposal value as market value at the time of sale. See *Note 17* in Annex 2.

***Section 424: Disposal value restricted in case of interest in land***

1468. This section is based on sections 99(3), 110 and 112 of CAA 1990. It excludes the undeveloped market value of land in arriving at its disposal value. This is because the undeveloped market value of land is excluded from qualifying expenditure when an interest in land is acquired.
1469. There is a minor change. *Subsection (5)(b)* contains a test by reference to general development orders in England whereas 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.

***Section 425: Receipt of capital sum***

1470. This section is based on section 99(4) of CAA 1990. It requires capital sums, reasonably attributable to qualifying expenditure, to be brought into account as disposal values.
1471. *Subsection (3)* stops a capital sum from being taken into account twice.

***Section 426: Pre-trading expenditure***

1472. This section is based on section 101(5) of CAA 1990. It sets out the qualifying expenditure concerned and the chargeable period in which any allowance in respect of it will be a balancing allowance.
1473. The qualifying expenditure is pre-trading expenditure on mineral exploration and access if, before the trade began, the mineral exploration and access permanently ceased at the source concerned. The chargeable period is the one in which the trade begins.

### ***Sections 427 to 431***

1474. These sections are based on sections 99(1), 101 and 161(2) of CAA 1990. They provide other circumstances in which a person is entitled to a balancing allowance for the qualifying expenditure concerned.

### ***Chapter 7: Supplementary provisions***

#### **Overview**

1475. This Chapter deals with giving effect to allowances and charges and other matters.
1476. **Section 432** sets out how allowances and charges are given effect for the mineral extraction trade.
1477. **Section 433** gives relief for demolition costs in certain cases.
1478. **Section 434** deals with when expenditure actually incurred before the trade starts is to be treated as incurred in this Part.
1479. **Section 435** treats this Part as applying to shares in assets as it applies to parts of assets.
1480. **Section 436** defines some terms used in this Part.

#### ***Section 432: Giving effect to allowances and charges***

1481. This section is based on sections 104, 140(2), 144(2) and 161(2) and (5) of CAA 1990. It gives effect to allowances and charges as trading expenses or receipts for the chargeable period concerned.

#### ***Section 433: Treatment of demolition costs***

1482. This section is based on sections 103 and 161(2) of CAA 1990. It allows net demolition costs to be added to the qualifying expenditure concerned in calculating the balancing allowance or balancing charge arising on the demolition of an asset representing qualifying expenditure.
1483. *Subsection (3)* stops the cost of demolition from being relieved more than once.

#### ***Section 434: Time when expenditure incurred***

1484. This section is based on section 120(1) of CAA 1990.
1485. *Subsection (2)* avoids 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 435: Share in assets***

1486. This section is based on section 121(5) of CAA 1990.

#### ***Section 436: Meaning of “development” etc.***

1487. This section is based on section 121(1) of CAA 1990.