



Capital Allowances Act 2001

2001 CHAPTER 2

PART 10

ASSURED TENANCY ALLOWANCES

CHAPTER 6

BALANCING ADJUSTMENTS

General

513 When balancing adjustments are made

- (1) A balancing adjustment is made if—
 - (a) qualifying expenditure has been incurred on a building, and
 - (b) a balancing event occurs in relation to a dwelling-house comprised in the building while it is a qualifying dwelling-house.
- (2) A balancing adjustment is either a balancing allowance or a balancing charge and is made for the chargeable period in which the balancing event occurs.
- (3) A balancing allowance or balancing charge is made to or on the person entitled to the relevant interest in the dwelling-house immediately before the balancing event.
- (4) No balancing adjustment is made if the balancing event occurs more than 25 years after the dwelling-house was first used.

514 Balancing events

The following are balancing events in relation to a qualifying dwelling-house—

- (a) the relevant interest in the dwelling-house is sold;
- (b) if the relevant interest in the dwelling-house is a lease, the lease ends otherwise than on the person entitled to it acquiring the interest reversionary on it;

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- (c) the dwelling-house is demolished or destroyed;
- (d) the dwelling-house ceases altogether to be used (without being demolished or destroyed).

515 Proceeds from balancing events

- (1) References in this Part to the proceeds from a balancing event are to the amounts received or receivable in connection with the event, as shown in the Table—

Table

Balancing events and proceeds

<i>1. Balancing event</i>	<i>2. Proceeds from event</i>
1. The sale of the relevant interest.	The net proceeds of the sale.
2. The demolition or destruction of the dwelling-house.	The net amount received for the remains of the dwelling-house, together with— (a) any insurance money received in respect of the demolition or destruction, and (b) any other compensation of any description so received, so far as it consists of capital sums.
3. The dwelling-house ceases altogether to be used.	Any compensation of any description received in respect of the event, so far as it consists of capital sums.

- (2) The amounts referred to in column 2 of the Table are those received or receivable by the person whose entitlement to a balancing allowance or liability to a balancing charge is in question.

Calculation of balancing adjustments

516 Dwelling-house a qualifying dwelling-house throughout

- (1) This section provides for balancing adjustments in cases where the dwelling-house was a qualifying dwelling-house for the whole of the relevant period of ownership.
- (2) A balancing allowance is made if—
- (a) there are no proceeds from the balancing event, or
 - (b) the proceeds from the balancing event are less than the residue of qualifying expenditure attributable to the dwelling-house immediately before the event.
- (3) The amount of the balancing allowance is the amount of—
- (a) the residue (if there are no proceeds);
 - (b) the difference (if the proceeds are less than the residue).
- (4) A balancing charge is made if the proceeds from the balancing event are more than the residue of qualifying expenditure attributable to the dwelling-house immediately before the event.
- (5) The amount of the balancing charge is the amount of the difference.

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517 Dwelling-house not a qualifying dwelling-house throughout

- (1) This section provides for balancing adjustments where the building was not a qualifying dwelling-house for a part of the relevant period of ownership.
- (2) A balancing allowance is made if—
 - (a) the proceeds from the balancing event are less than the starting expenditure attributable to the dwelling-house, and
 - (b) the total amount of the relevant allowances in respect of that expenditure is less than the adjusted net cost of the dwelling-house.
- (3) The amount of the balancing allowance is the amount of the difference between the adjusted net cost of the dwelling-house and the total amount of the relevant allowances.
- (4) A balancing charge is made if the proceeds from the balancing event are equal to or more than the starting expenditure attributable to the dwelling-house.
- (5) The amount of the balancing charge is equal to the total amount of the relevant allowances.
- (6) A balancing charge is also made if—
 - (a) the proceeds from the balancing event are less than the starting expenditure attributable to the dwelling-house, and
 - (b) the total amount of the relevant allowances in respect of that expenditure is more than the adjusted net cost in relation to the dwelling-house.
- (7) The amount of the balancing charge is the amount of the difference between the total amount of those allowances and the adjusted net cost.
- (8) “The relevant allowances” means—
 - (a) any initial allowance under paragraph 1 of Schedule 12 to FA 1982, and
 - (b) any writing-down allowance made for a chargeable period ending on or before the date of the balancing event in question.

518 Overall limit on balancing charge

- (1) The amount of a balancing charge made on a person in respect of any qualifying expenditure attributable to a dwelling-house must not exceed the total amount of the relevant allowances made to that person.
- (2) “The relevant allowances” has the meaning given by section 517(8).

519 Recovery of old initial allowances made on incorrect assumptions

- (1) This section applies if—
 - (a) an initial allowance has been made under paragraph 1 of Schedule 12 to FA 1982 in respect of expenditure relating to a dwelling-house, and
 - (b) when the dwelling-house comes to be used, it is not a qualifying dwelling-house.
- (2) All such assessments and adjustments of assessments are to be made as are necessary to secure that, despite the repeal of Schedule 12 to FA 1982, effect is given to the prohibition in paragraph 1(3) of that Schedule (on the making of initial allowances in respect of dwelling-houses which are not qualifying dwelling-houses).

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Meaning of “the relevant period of ownership” etc.

520 The relevant period of ownership

The relevant period of ownership is the period beginning—

- (a) with the day on which the dwelling-house was first used for any purpose, or
- (b) if the relevant interest in the dwelling-house has been sold after that day, with the day following that on which the sale (or the last such sale) occurred,

and ending with the day on which the balancing event occurs.

521 Starting expenditure

- (1) This section gives the starting expenditure attributable to a dwelling-house for the purposes of section 517.
- (2) If the person to or on whom the balancing allowance or balancing charge falls to be made is the person who incurred the qualifying expenditure attributable to the dwelling-house, that expenditure is the starting expenditure.
- (3) Otherwise, the starting expenditure is the residue of qualifying expenditure attributable to the dwelling-house at the beginning of the relevant period of ownership.
- (4) If section 528 (treatment of demolition costs) applies, the starting expenditure is increased by an amount equal to the net cost of the demolition.

522 Adjusted net cost

The amount of the adjusted net cost in relation to a dwelling-house is—

$$(S - P) \times \frac{I}{R}$$

where—

S is the starting expenditure attributable to the dwelling-house,

P is the amount of any proceeds from the balancing event,

I is the number of days in the relevant period of ownership on which the dwelling-house was a qualifying dwelling-house, and

R is the number of days in the whole of the relevant period of ownership.

Changes to legislation:

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