



Capital Allowances Act 2001

2001 CHAPTER 2

PART 2

PLANT AND MACHINERY ALLOWANCES

CHAPTER 5

ALLOWANCES AND CHARGES

First-year allowances

52 First-year allowances

- (1) A person is entitled to a first-year allowance in respect of first-year qualifying expenditure if—
 - (a) the expenditure is incurred in a chargeable period to which this Act applies, and
 - (b) the person owns the plant or machinery at some time during that chargeable period.
- (2) Any first-year allowance is made for the chargeable period in which the first-year qualifying expenditure is incurred.
- (3) The amount of the allowance is a percentage of the first-year qualifying expenditure in respect of which the allowance is made, as shown in the Table—

Table

Amount of first-year allowances

<i>Type of first-year qualifying expenditure</i>	<i>Amount</i>
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Expenditure qualifying under section 40 100%
 (expenditure incurred for Northern
 Ireland purposes by small or medium-
 sized enterprises)

Expenditure qualifying under section 44 40%
 (expenditure incurred by small or
 medium-sized enterprises)

Expenditure qualifying under section 45 100%
 (ICT expenditure incurred by small
 enterprises)

- (4) A person who is entitled to a first-year allowance may claim the allowance in respect of the whole or a part of the first-year qualifying expenditure.
- (5) Subsection (1) needs to be read with section 236 (first-year allowances in respect of additional VAT liabilities) and is subject to—
- section 205 (reduction of first-year allowance if plant or machinery provided partly for purposes other than those of qualifying activity),
 - section 210 (reduction of first-year allowance if it appears that a partial depreciation subsidy is or will be payable), and
 - sections 217, 223 and 241 (anti-avoidance: no first-year allowance in certain cases).

Pooling

53 Pooling of qualifying expenditure

- (1) Qualifying expenditure has to be pooled for the purpose of determining a person's entitlement to writing-down allowances and balancing allowances and liability to balancing charges.
- (2) If a person carries on more than one qualifying activity, expenditure relating to the different activities must not be allocated to the same pool.

54 The different kinds of pools

- (1) There are single asset pools, class pools and the main pool.
- (2) A single asset pool may not contain expenditure relating to more than one asset.
- (3) The following provide for qualifying expenditure to be allocated to a single asset pool—
- section 74 (car above the cost threshold);
 - section 86 (short-life asset);
 - section 127 (ship);
 - section 206 (plant or machinery provided or used partly for purposes other than those of qualifying activity);
 - section 211 (payment of partial depreciation subsidy);
 - section 538 (contribution allowances: plant and machinery).
- (4) A class pool is a pool which may contain expenditure relating to more than one asset.

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- (5) The following provide for qualifying expenditure to be allocated to a class pool—
section 101 (long-life assets);
section 107 (overseas leasing).
- (6) Qualifying expenditure may be allocated to the main pool only if it does not fall to be allocated to a single asset pool or a class pool.

Writing-down and balancing allowances and balancing charges

55 Determination of entitlement or liability

- (1) Whether a person is entitled to a writing-down allowance or a balancing allowance, or liable to a balancing charge, for a chargeable period is determined separately for each pool of qualifying expenditure and depends on—
 - (a) the available qualifying expenditure in that pool for that period (“AQE”), and
 - (b) the total of any disposal receipts to be brought into account in that pool for that period (“TDR”).
- (2) If AQE exceeds TDR, the person is entitled to a writing-down allowance or a balancing allowance for the period.
- (3) If TDR exceeds AQE, the person is liable to a balancing charge for the period.
- (4) The entitlement under subsection (2) is to a writing-down allowance except for the final chargeable period when it is to a balancing allowance.
- (5) The final chargeable period is given by section 65.
- (6) Subsection (2) is subject to section 110(1) (overseas leasing: allowances prohibited in certain cases).

56 Amount of allowances and charges

- (1) The amount of the writing-down allowance to which a person is entitled for a chargeable period is 25% of the amount by which AQE exceeds TDR.
- (2) Subsection (1) is subject to—
 - (a) section 102 (long-life asset expenditure: 6%), and
 - (b) section 109 (overseas leasing: 10%).
- (3) If the chargeable period is more or less than a year, the amount is proportionately increased or reduced.
- (4) If the qualifying activity has been carried on for part only of the chargeable period, the amount is proportionately reduced.
- (5) A person claiming a writing-down allowance may require the allowance to be reduced to a specified amount.
- (6) The amount of the balancing charge to which a person is liable for a chargeable period is the amount by which TDR exceeds AQE.
- (7) The amount of the balancing allowance to which a person is entitled for the final chargeable period is the amount by which AQE exceeds TDR.

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Available qualifying expenditure

57 Available qualifying expenditure

- (1) The general rule is that a person's available qualifying expenditure in a pool for a chargeable period consists of—
 - (a) any qualifying expenditure allocated to the pool for that period in accordance with section 58, and
 - (b) any unrelieved qualifying expenditure carried forward in the pool from the previous chargeable period under section 59.
- (2) A person's available qualifying expenditure in a pool for a chargeable period also includes any amount allocated to the pool for that period under—
 - section 26(3) (net costs of demolition);
 - section 86(2) or 87(2) (allocation of expenditure in short-life asset pool);
 - section 111(3) (overseas leasing: standard recovery mechanism);
 - section 129(1), 132(2), 133(3) or 137 (provisions relating to operation of single ship pool and deferment of balancing charges in respect of ships);
 - section 165(3) (abandonment expenditure incurred after cessation of ring fence trade);
 - section 206(3) (plant or machinery used partly for purposes other than those of the qualifying activity);
 - section 211(4) (partial depreciation subsidy paid).
- (3) A person's available qualifying expenditure does not include any expenditure excluded by—
 - section 8(4) or 9(1) (rules against double relief);
 - section 166(2) (transfers of interests in oil fields: anti-avoidance);
 - section 185(2), 186(2) or 187(2) (restrictions where other claims made in respect of fixture);
 - section 218(1), 224(1), 228(2), 242(2), or 243(2) (general anti-avoidance provisions).
- (4) Subsection (1) is also subject to section 220 (allocation to chargeable periods of expenditure incurred on plant or machinery for leasing under finance lease).

58 Initial allocation of qualifying expenditure to pools

- (1) The following rules apply to the allocation of a person's qualifying expenditure to the appropriate pool.
- (2) An amount of qualifying expenditure is not to be allocated to a pool for a chargeable period if that amount has been taken into account in determining the person's available qualifying expenditure for an earlier chargeable period.
- (3) Qualifying expenditure is not to be allocated to a pool for a chargeable period before that in which the expenditure is incurred.
- (4) Qualifying expenditure is not to be allocated to a pool for a chargeable period unless the person owns the plant or machinery at some time in that period.
- (5) If a first-year allowance is made in respect of an amount of first-year qualifying expenditure—

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- (a) subject to subsection (6), none of that amount is to be allocated to a pool for the chargeable period in which the expenditure is incurred, and
 - (b) the amount that may be allocated to a pool for any chargeable period is limited to the balance left after deducting the first-year allowance.
- (6) If—
- (a) a first-year allowance is made in respect of an amount of first-year qualifying expenditure,
 - (b) a disposal event occurs in respect of the plant or machinery in any chargeable period, and
 - (c) none of the balance left after deducting the first-year allowance has been allocated to a pool for an earlier chargeable period,
- the balance (or some of it) must be allocated to a pool for the chargeable period in which the disposal event occurs.
- (7) Subsection (6) applies even if the balance is nil (because of a 100% first-year allowance).
- (8) “The appropriate pool” means whichever pool is applicable under the provisions of this Part apart from this section.

59 Unrelieved qualifying expenditure

- (1) A person has unrelieved qualifying expenditure to carry forward from a chargeable period if for that period AQE exceeds TDR.
- (2) The amount of the unrelieved qualifying expenditure is—
 - (a) the excess less the writing-down allowance made for the period, or
 - (b) if no writing-down allowance is claimed for the period, the excess.
- (3) No amount may be carried forward as unrelieved qualifying expenditure from the final chargeable period.

Disposal events and disposal values: general

60 Meaning of “disposal receipt” and “disposal event”

- (1) In this Part “disposal receipt” means a disposal value that a person is required to bring into account in accordance with—
 - (a) sections 61, 62 and 63 (disposal events, disposal values and the general limit on the amount of a disposal value),
 - (b) any of the provisions of this Part listed in section 66, or
 - (c) paragraph 11 of Schedule 12 to FA 1997 (finance lease or loan: receipt of major lump sum) or any other enactment,when read with sections 64 and 264(3) (cases in which no disposal value need be brought into account).
- (2) In this Part “disposal event” means any event of a kind that requires a disposal value to be brought into account under this Part (whether under section 61(1) or otherwise).
- (3) If—
 - (a) qualifying expenditure has been allocated to a pool, and

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(b) more than one disposal event occurs in respect of the plant or machinery, a disposal value is required to be brought into account in the pool in connection with the first event only.

- (4) In subsection (3) “disposal event” does not include a disposal event arising under—
 section 72 (computer software),
 sections 140 and 143 (attribution of deferred balancing charge), or
 section 238(2) (additional VAT rebates).

61 Disposal events and disposal values

- (1) A person who has incurred qualifying expenditure is required to bring the disposal value of the plant or machinery into account for the chargeable period in which—
- (a) the person ceases to own the plant or machinery;
 - (b) the person loses possession of the plant or machinery in circumstances where it is reasonable to assume that the loss is permanent;
 - (c) the plant or machinery has been in use for mineral exploration and access and the person abandons it at the site where it was in use for that purpose;
 - (d) the plant or machinery ceases to exist as such (as a result of destruction, dismantling or otherwise);
 - (e) the plant or machinery begins to be used wholly or partly for purposes other than those of the qualifying activity;
 - (f) the qualifying activity is permanently discontinued.
- (2) The disposal value to be brought into account depends on the disposal event, as shown in the Table—

Table

Disposal values: general

1. Disposal event	2. Disposal value
1. Sale of the plant or machinery, except in a case where item 2 applies.	The net proceeds of the sale, together with— (a) any insurance money received in respect of the plant or machinery as a result of an event affecting the price obtainable on the sale, and (b) any other compensation of any description so received, so far as it consists of capital sums.
2. Sale of the plant or machinery where— (a) the sale is at less than market value, (b) there is no charge to tax under Schedule E, and (c) the condition in subsection (4) is met by the buyer.	The market value of the plant or machinery at the time of the sale.
3. Demolition or destruction of the plant or machinery.	The net amount received for the remains of the plant or machinery, together with—

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| | (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. |
| 4. Permanent loss of the plant or machinery otherwise than as a result of its demolition or destruction. | Any insurance money received in respect of the loss and, so far as it consists of capital sums, any other compensation of any description so received. |
| 5. Abandonment of the plant or machinery which has been in use for mineral exploration and access at the site where it was in use for that purpose. | Any insurance money received in respect of the abandonment and, so far as it consists of capital sums, any other compensation of any description so received. |
| 6. Permanent discontinuance of the qualifying activity followed by the occurrence of an event within any of items 1 to 5. | The disposal value for the item in question. |
| 7. Any event not falling within any of items 1 to 6. | The market value of the plant or machinery at the time of the event. |
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- (3) The amounts referred to in column 2 of the Table are those received by the person required to bring the disposal value into account.
- (4) The condition referred to in item 2 of the Table is met by the buyer if—
- (a) the buyer’s expenditure on the acquisition of the plant or machinery cannot be qualifying expenditure under this Part or Part 6 (research and development allowances), or
 - (b) the buyer is a dual resident investing company which is connected with the seller.
- (5) In this section “mineral exploration and access” has the same meaning as in Chapter 13 (provisions affecting the mining and oil industries) and Part 5 (mineral extraction allowances).

62 General limit on amount of disposal value

- (1) The amount of any disposal value required to be brought into account by a person in respect of any plant or machinery is limited to the qualifying expenditure incurred by the person on its provision.
- (2) Subsection (3) applies if a person who is required to bring a disposal value into account has acquired the plant or machinery as a result of a transaction which was, or a series of transactions each of which was, between connected persons.
- (3) The amount of the disposal value is limited to the amount of the qualifying expenditure on the provision of the plant or machinery incurred by whichever party to the transaction, or to any of the transactions, incurred the greatest such expenditure.

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- (4) This section is subject to section 239 (limit on disposal value where additional VAT rebate or rebates has or have been made in respect of original expenditure).

63 Cases in which disposal value is nil

- (1) If a person disposes of plant or machinery by way of gift in circumstances such that there is a charge to tax under Schedule E, the disposal value of the plant or machinery is nil.
- (2) If a person carrying on a relevant qualifying activity makes a gift of plant or machinery used in the course of the activity—
- (a) to a charity within the meaning of section 506 of ICTA (charities: qualifying and non-qualifying expenditure),
 - (b) to a body listed in section 507(1) of ICTA (various heritage bodies and museums), or
 - (c) for the purposes of a designated educational establishment within the meaning of section 84 of ICTA (gifts to educational establishments),
- the disposal value of the plant or machinery is nil.
- (3) In subsection (2) “relevant qualifying activity” means a qualifying activity consisting of—
- (a) a trade,
 - (b) an ordinary Schedule A business,
 - (c) a furnished holiday lettings business,
 - (d) an overseas property business, or
 - (e) a profession or vocation.
- (4) Subsection (2) needs to be read with sections 83A(4) and 84(4) of ICTA (which provide for a charge to tax if subsection (2) applies in circumstances in which the donor or a connected person receives a benefit attributable to the gift).
- (5) If expenditure is treated under section 27(2) (expenditure on thermal insulation, safety measures, etc.) as having been incurred on plant or machinery, the disposal value of the plant or machinery is nil.

Modifications etc. (not altering text)

- C1** S. 63(2) modified (with effect as mentioned in s. 58(4) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 58, [Sch. 18 para. 9\(3\)\(c\)](#)

64 Case in which no disposal value need be brought into account

- (1) A person is not required to bring a disposal value into account in a pool for a chargeable period in respect of plant or machinery if none of the qualifying expenditure is or has been taken into account in a claim in determining the person’s available qualifying expenditure in the pool for that or any previous chargeable period.
- (2) Subsection (3) applies if—
- (a) a person (“C”) has incurred qualifying expenditure on plant or machinery,
 - (b) C acquired the plant or machinery as a result of a transaction which was, or a series of transactions each of which was, between connected persons,

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- (c) any connected person (apart from C) who was a party to the transaction, or one of the series of transactions, is or has been required to bring a disposal value into account as a result of the transaction,
 - (d) a disposal event (“the relevant disposal event”) occurs in respect of the plant or machinery at a time when it is owned by C, and
 - (e) none of C’s qualifying expenditure is or has been taken into account in a claim in determining C’s available qualifying expenditure for the chargeable period in which the relevant disposal event occurs or any previous chargeable period.
- (3) If this subsection applies—
- (a) subsection (1) does not apply in relation to the relevant disposal event, and
 - (b) C’s qualifying expenditure is to be treated as allocated to the appropriate pool for the chargeable period in which the relevant disposal event occurs.
- (4) In subsection (3)—
- (a) “qualifying expenditure” means, if a first-year allowance has been made to C, the amount (including a nil amount) remaining after deducting the allowance, and
 - (b) “the appropriate pool” means whichever pool is applicable in relation to C under the provisions of this Part.
- (5) A person takes expenditure into account in a claim if he takes it into account—
- (a) in a tax return;
 - (b) by giving notice of an amendment of a tax return;
 - (c) in any other claim under this Part.

The final chargeable period

65 The final chargeable period

- (1) The final chargeable period for—
- (a) the main pool, or
 - (b) a long-life asset pool,
- is the chargeable period in which the qualifying activity is permanently discontinued.
- (2) The final chargeable period for a single asset pool is the first chargeable period in which any disposal event given in section 61(1) occurs.
- (3) Subsection (2) is subject to—
- sections 77(1) and 206(4) (no final chargeable period merely because plant or machinery begins to be used partly for purposes other than those of qualifying activity);
 - sections 86(2) and 87(2) (ending of short-life asset pool at four-year cut-off without final chargeable period);
 - section 132(2) (no final chargeable period for single ship pool).
- (4) The final chargeable period for a class pool under section 107 (overseas leasing) is the chargeable period at the end of which the circumstances are such that there can be no more disposal receipts in any subsequent chargeable period.

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List of provisions outside this Chapter about disposal values

66 List of provisions outside this Chapter about disposal values

The provisions of this Part referred to in section 60(1)(b) are—

section 68	hire-purchase etc.: disposal value on cessation of notional ownership
sections 72 and 73	grant of new software right: disposal value
section 79	cars: disposal value in avoidance cases
sections 88 and 89	short-life assets: disposal at under-value or to connected person
section 104	long-life assets: avoidance cases
sections 108, 111 and 114	overseas leasing: disposal values in various cases
sections 132 and 143	ships: ship used for overseas leasing etc.; attribution of amount where balancing charge deferred
section 171	oil production sharing contracts: disposal values on cessation of ownership
sections 196 and 197	fixtures: disposal values on cessation of notional ownership and in avoidance cases
section 208	effect of significant reduction in use of plant or machinery for purposes of qualifying activity
section 211	effect of payment of partial depreciation subsidy
section 222	anti-avoidance: limit on disposal value
section 229	hire-purchase: disposal values in finance leasing and anti-avoidance cases
sections 238 and 239	additional VAT rebates

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