



Capital Allowances Act 2001

2001 CHAPTER 2

PART 7

KNOW-HOW ALLOWANCES

CHAPTER 3

ALLOWANCES AND CHARGES

456 Pooling of 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) There is a separate pool for each trade in respect of which the person has qualifying expenditure.

457 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 values to be brought into account in that pool for that period ("TDV").
- (2) If AQE exceeds TDV, the person is entitled to a writing-down allowance or a balancing allowance for the period.
- (3) If TDV 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.

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 3. (See end of Document for details)

- (5) The final chargeable period is the chargeable period in which the trade is permanently discontinued.

458 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 TDV.
- (2) If the chargeable period is more or less than a year, the amount is proportionately increased or reduced.
- (3) If the trade has been carried on for part only of the chargeable period, the amount is proportionately reduced.
- (4) A person claiming a writing-down allowance may require the allowance to be reduced to a specified amount.
- (5) The amount of the balancing charge to which a person is liable for a chargeable period is the amount by which TDV exceeds AQE.
- (6) The amount of the balancing allowance to which a person is entitled for the final chargeable period is the amount by which AQE exceeds TDV.

459 Available qualifying expenditure

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 460, and
- (b) any unrelieved qualifying expenditure carried forward in the pool from the previous chargeable period under section 461.

460 Allocation of qualifying expenditure to pools

- (1) The following rules apply to the allocation of a person's qualifying expenditure to a pool.
- (2) An amount of qualifying expenditure is not to be allocated to the 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 the pool for a chargeable period before that in which the expenditure is incurred.

461 Unrelieved qualifying expenditure

- (1) A person has unrelieved qualifying expenditure to carry forward from a chargeable period if for that period AQE exceeds TDV.
- (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.

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 3. (See end of Document for details)

- (3) No amount may be carried forward as unrelieved qualifying expenditure from the final chargeable period.

[^{F1}461A Unrelieved qualifying expenditure: entry to cash basis

- (1) If a person carrying on a trade enters the cash basis for a tax year, any cash basis deductible amount may not be carried forward as unrelieved qualifying expenditure in the pool for the trade from the chargeable period ending with the basis period for the previous tax year.
- (2) A “cash basis deductible amount” means any amount of unrelieved qualifying expenditure for which a deduction would be allowed in calculating the profits of the trade on the cash basis on the assumption that the expenditure was paid in the tax year for which the person enters the cash basis.
- (3) Any cash basis deductible amount is to be determined on such basis as is just and reasonable in all the circumstances.
- (4) Subsections (9) and (11) of section 1A (capital allowances and charges: cash basis) apply for the purposes of this section as they apply for the purposes of that section.]

Textual Amendments

- F1** S. 461A inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 56](#)

Modifications etc. (not altering text)

- C1** S. 461A(1) excluded by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), [s. 240C\(5A\)](#) (as inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(7\)](#))

462 Disposal values

- (1) A person is required to bring a disposal value into account for the chargeable period in which he sells know-how on which he has incurred qualifying expenditure.
- (2) The disposal value to be brought into account is the net proceeds of the sale, so far as they consist of capital sums.
- (3) But no disposal value need be brought into account if the consideration received for the sale is treated as a payment for goodwill under [^{F2}section 194(2) of ITTOIA 2005 or under][^{F3}section 178(2) of CTA 2009] (consideration for know-how on disposal of trade to be treated as payment for goodwill, unless parties otherwise elect).

Textual Amendments

- F2** Words in s. 462(3) inserted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), [s. 883\(1\)](#), [Sch. 1 para. 564](#) (with [Sch. 2](#))
- F3** Words in s. 462(3) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), [s. 1329\(1\)](#), [Sch. 1 para. 511](#) (with [Sch. 2 Pts. 1, 2](#))

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 3. (See end of Document for details)

[^{F4}462A Persons leaving cash basis

- (1) This section applies if—
 - (a) a person carrying on a trade leaves the cash basis in a chargeable period,
 - (b) the person has incurred expenditure at a time when an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect in relation to the trade,
 - (c) some or all of the expenditure was brought into account in calculating the profits of the trade on the cash basis, and
 - (d) the expenditure would have been qualifying expenditure if an election under section 25A of that Act had not had effect at the time the expenditure was incurred.
- (2) In this section the “relieved portion” of the expenditure is the higher of the following—
 - (a) the amount of that expenditure for which a deduction was allowed in calculating the profits of the trade, or
 - (b) the amount of that expenditure for which a deduction would have been so allowed if the expenditure had been incurred wholly and exclusively for the purposes of the trade.
- (3) For the purposes of determining the person's available qualifying expenditure in the pool for the trade for the chargeable period (see section 456)—
 - (a) the whole of the expenditure must be allocated to the pool for the trade in that chargeable period, and
 - (b) the available qualifying expenditure in that pool is reduced by the relieved portion of that expenditure.
- (4) For the purposes of determining any disposal values (see section 462), the expenditure incurred by the person is to be regarded as qualifying expenditure.
- (5) For the purposes of this section a person carrying on a trade leaves the cash basis in a chargeable period if—
 - (a) immediately before the beginning of the chargeable period an election under section 25A of ITTOIA 2005 had effect in relation to the trade, and
 - (b) such an election does not have effect in relation to the trade for the chargeable period.]

Textual Amendments

- F4** S. 462A inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 57](#)

463 Giving effect to allowances and charges

An allowance or charge to which a person is entitled or liable under this Part for a chargeable period is to be given effect in calculating the profits of the trade, by treating—

- (a) the allowance as an expense of the trade, and
- (b) the charge as a receipt of the trade.

Changes to legislation:

There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 3.