



Capital Allowances Act 2001

2001 CHAPTER 2

PART 5

MINERAL EXTRACTION ALLOWANCES

CHAPTER 6

ALLOWANCES AND CHARGES

^{F1}First-year allowances

Textual Amendments

- F1** S. 416D and preceding crossheading inserted (with effect as mentioned in s. 63(3) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 63, Sch. 21 para. 10](#)

416D First-year allowances

- (1) A person is entitled to a first-year allowance in respect of first-year qualifying expenditure if the expenditure is incurred in a chargeable period to which this Act applies.
- (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

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

Type of first-year qualifying expenditure	Amount
Expenditure qualifying under section 416B (expenditure incurred wholly for the purposes of a ring fence trade)	100%

- (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) This section is subject to section 416E (artificially inflated claims for first-year allowances).

Artificially inflated claims for first-year allowances

F2 416E

- (1) To the extent that a transaction is attributable to arrangements entered into wholly or mainly for a disqualifying purpose, it shall be disregarded in determining for a chargeable period the amount of any first-year allowance to which a person is entitled.
- (2) For the purposes of this section, arrangements are entered into wholly or mainly for a “disqualifying purpose” if their main object, or one of their main objects, is to enable a person to obtain—
- (a) a first-year allowance to which he would not otherwise be entitled, or
 - (b) a first-year allowance of a greater amount than that to which he would otherwise be entitled.
- (3) In this section “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable.]]

Textual Amendments

F2 S. 416E inserted (with effect as mentioned in s. 63(3) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 63, [Sch. 21 para. 11](#)

Writing-down and balancing allowances and balancing charges

417 Determination of entitlement or liability

- (1) Whether a person who has incurred qualifying expenditure is entitled to a writing-down allowance or a balancing allowance, or liable to a balancing charge, for a chargeable period depends on—
- (a) how much of the expenditure is unrelieved qualifying expenditure for that period (“UQE”), and
 - (b) the total of any disposal receipts to be brought into account for that period (“TDR”) by reference to the expenditure.
- (2) If UQE exceeds TDR, the person is entitled to a writing-down allowance or a balancing allowance for the period.
- (3) If TDR exceeds UQE, the person is liable to a balancing charge for the period.

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

- (4) The entitlement under subsection (2) is to a writing-down allowance except in cases for which sections 426 to 431 provide for the entitlement to be to a balancing allowance.

418 Amount of allowances and charges

- (1) The amount of the writing-down allowance to which a person is entitled for any chargeable period in respect of qualifying expenditure is—
- (a) in the case of qualifying expenditure on the acquisition of a mineral asset, 10% of the amount by which UQE exceeds TDR;
 - (b) in the case of other qualifying expenditure, 25% of the amount by which UQE exceeds TDR.
- (2) If the chargeable period is more or less than a year, the amount of the writing-down allowance is proportionately increased or reduced.
- (3) If the mineral extraction trade has been carried on for part only of the chargeable period, the amount of the writing-down allowance is proportionately reduced.
- (4) The amount of the balancing charge to which a person is liable for a chargeable period in respect of qualifying expenditure is—
- (a) the amount by which TDR exceeds UQE, or
 - (b) if less, the allowances for earlier chargeable periods in respect of the expenditure less the total of any balancing charges for those periods in respect of the expenditure.

[^{F3}Where a person is liable to a balancing charge in respect of first-year qualifying expenditure for the chargeable period in which he incurred the expenditure, any first-year allowance made in respect of the expenditure shall be treated for the purposes of paragraph (b) as if it were an allowance for an earlier chargeable period.]

- ^{F3}(5) The amount of the balancing allowance to which a person is entitled for a chargeable period in respect of qualifying expenditure is the amount by which UQE exceeds TDR.
- (6) A person claiming a writing-down allowance or a balancing allowance may require the allowance to be reduced to a specified amount.

Textual Amendments

F3 Words in s. 418(4) inserted (with effect as mentioned in s. 63(3) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 63, [Sch. 21 para. 12](#)

Unrelieved qualifying expenditure

419 Unrelieved qualifying expenditure

- (1) A person's unrelieved qualifying expenditure for the chargeable period in which the qualifying expenditure is incurred is
- [^{F4}(a) the whole of it, unless the expenditure is first-year qualifying expenditure, or
 - (b) if the expenditure is first-year qualifying expenditure, none of it,
- but paragraph (b) is subject to subsections (3) to (5).]

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

- (2) A person's unrelieved qualifying expenditure for a chargeable period after that in which the qualifying expenditure is incurred is the amount, if any, by which it exceeds the aggregate of—
- (a) the allowances made in respect of the expenditure for earlier chargeable periods, and
 - (b) the total of any disposal receipts for earlier chargeable periods.
- [^{F5}(3) If, in the case of expenditure which is first-year qualifying expenditure, a disposal receipt falls to be brought into account for the chargeable period in which the expenditure is incurred (“ the initial period ”), subsection (4) below applies.
- (4) Where this subsection applies, the unrelieved balance of the expenditure shall be taken to be unrelieved qualifying expenditure for the initial period, but only for the purpose specified in subsection (5).
- (5) The purpose is that of determining in accordance with sections 417 and 418—
- (a) any question whether the person who incurred the expenditure—
 - (i) is entitled to a balancing allowance for the initial period, or
 - (ii) is liable to a balancing charge for that period, and
 - (b) if so, the amount of that balancing allowance or balancing charge.
- (6) In this section “ the unrelieved balance of the expenditure ” means so much of the first-year qualifying expenditure in question as remains after deducting the amount of any first-year allowance given in respect of the whole or any part of that expenditure.]

Textual Amendments

- F4** Words in s. 419(1) substituted (with effect as mentioned in s. 63 of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 63, [Sch. 21 para. 13\(2\)](#)
- F5** S. 419(3)-(6) inserted (with effect as mentioned in s. 63 of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 63, [Sch. 21 para. 13\(3\)](#)

[^{F6}419A Unrelieved qualifying expenditure: entry to cash basis

- (1) If a person carrying on a mineral extraction trade enters the cash basis for a tax year, for the purpose of determining the person's unrelieved qualifying expenditure for the chargeable period ending with the basis period for the tax year and subsequent chargeable periods (see section 419), only the non-cash basis deductible portion of qualifying expenditure incurred before the chargeable period ending with the basis period for the tax year is to be taken into account.
- (2) The “non-cash basis deductible portion” of qualifying expenditure means the amount of qualifying expenditure for which no 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) 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.]

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

Textual Amendments

- F6** S. 419A 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. 54](#)

Disposal values

420 Meaning of “disposal receipt”

In sections 417 to 419 “disposal receipt” means a disposal value that a person is required to bring into account in accordance with—

- (a) sections 421 to 425, or
- (b) [^{F7}section 614BS of ITA 2007] or [^{F8}section 918 of CTA 2010 (cases where expenditure taken into account under Part 2, 5 or 8 of this Act) or] any other enactment.

Textual Amendments

- F7** Words in s. 420(b) substituted (1.4.2010) (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 235](#) (with [Sch. 9 paras. 1-9, 22](#))
- F8** Words in s. 420(b) inserted (1.4.2010) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 356](#) (with [Sch. 2](#))

421 Disposal of, or ceasing to use, asset

- (1) This section applies if—
 - (a) a person has incurred qualifying expenditure on providing assets (including the construction of works), and
 - (b) any of those assets—
 - (i) is disposed of, or
 - (ii) permanently ceases to be used by him for the purposes of a mineral extraction trade (whether because of the discontinuance of the trade or for any other reason).
- (2) The person is required to bring the disposal value of the asset into account for the chargeable period in which the disposal or cessation occurs.

422 Use of asset otherwise than for permitted development etc.

- (1) This section applies if—
 - (a) a person has acquired a mineral asset,
 - (b) at any time after the acquisition, the asset begins to be used (by him or another person) in a way which constitutes development, and
 - (c) the development is not—
 - (i) existing permitted development, or
 - (ii) development for the purposes of a mineral extraction trade carried on by the person.

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

- (2) The person is required to bring the disposal value of the mineral asset into account for the chargeable period in which the use begins.
- (3) Development is existing permitted development if at the time of the acquisition—
 - (a) it has been, or had begun to be, lawfully carried out, or
 - (b) it could be lawfully carried out under planning permission granted by a general development order.
- (4) In applying subsection (3) in relation to land outside the United Kingdom—
 - (a) whether, at the time of the acquisition, development has been, or had begun to be, lawfully carried out is to be determined according to the law of the territory in which the land is situated, and
 - (b) whether, at that time, development could be lawfully carried out under planning permission granted by a general development order is to be determined as if the land were in England.

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

- (1) The disposal value to be brought into account under section 421 or 422 depends on the event requiring it to be brought into account, as shown in the Table—

Table

Disposal value for sections 421 and 422

1. Event	2. Disposal value
1. Sale of the asset, except in a case where item 2 applies.	The net proceeds of the sale, together with— <ul style="list-style-type: none"> (a) any insurance money received in respect of the asset 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 asset where— <ul style="list-style-type: none"> (a) the sale is at less than market value, (b) there is no charge to tax under [^{F9}ITEPA 2003], and (c) the condition in subsection (3) is met by the buyer. 	The market value of the asset at the time of the sale.
3. Demolition or destruction of the asset.	The net amount received for the remains of the asset, together with— <ul style="list-style-type: none"> (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.

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

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| 4. Permanent loss of the asset 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. Permanent discontinuance of the trade followed by the occurrence of an event within any of items 1 to 4. | The disposal value for the item in question. |
| 6. Any event not falling within any of items 1 to 5. | The market value of the asset at the time of the event. |
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- (2) The amounts referred to in column 2 of the Table are those received by the person required to bring the disposal value into account.
- (3) The condition referred to in item 2 of the Table is met by the buyer if—
- the buyer’s expenditure on the acquisition of the asset cannot be qualifying expenditure under Part 2 or 6 (plant and machinery and research and development allowances), or
 - the buyer is a dual resident investing company which is connected with the seller.

Textual Amendments

- F9** Words in s. 423(1) substituted (with effect in accordance with s. 723(1)(a)(b) of the amending Act) by [Income Tax \(Earnings and Pensions\) Act 2003 \(c. 1\)](#), s. 723, [Sch. 6 para. 254](#) (with [Sch. 7](#))

Modifications etc. (not altering text)

- C1** S. 423 excluded (E.W.S.) (8.6.2005) by [Railways Act 2005 \(c. 14\)](#), s. 60(2), [Sch. 10 para. 14\(2\)\(a\)](#); [S.I. 2005/1444](#), art. 2(1), [Sch. 1](#)

424 Disposal value restricted in case of interest in land

- (1) If the asset in relation to which a disposal value is required to be brought into account under section 421 or 422 is an interest in land, the disposal value is restricted by excluding the undeveloped market value of the interest.
- (2) “The undeveloped market value of the interest” means the amount that, at the time of the disposal, the interest might reasonably be expected to fetch on a sale in the open market on the assumptions in subsection (3).
- (3) The assumptions are that—
- there is no source of mineral deposits on or in the land, and
 - it will only ever be lawful to carry out existing permitted development.
- (4) Development is existing permitted development if at the time of the disposal—
- it has been, or had begun to be, lawfully carried out, or
 - it could be lawfully carried out under planning permission granted by a general development order.
- (5) In applying subsection (4) in relation to land outside the United Kingdom—

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- (a) whether, at the time of the disposal, development has been, or had begun to be, lawfully carried out is to be determined according to the law of the territory in which the land is situated, and
- (b) whether, at that time, development could be lawfully carried out under planning permission granted by a general development order is to be determined as if the land were in England.

425 Receipt of capital sum

- (1) This section applies if a person—
 - (a) has incurred qualifying expenditure, and
 - (b) receives a capital sum which, in whole or in part, it is reasonable to attribute to that expenditure.
- (2) The person is required to bring into account as a disposal value for the chargeable period in which the capital sum is received so much of the capital sum as is reasonably attributable to the qualifying expenditure.
- (3) This section does not apply if the capital sum falls to be brought into account under section 421 or 422.

Cases in which a person is entitled to a balancing allowance

426 Pre-trading expenditure

A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—

- (a) the expenditure is qualifying expenditure under—
 - (i) section 401(4) (pre-trading exploration expenditure where exploration etc. has ceased before first day of trading), or
 - (ii) section 402 (pre-trading expenditure on plant or machinery), and
- (b) the first day of trading occurs in that chargeable period.

427 Giving up exploration, search or inquiry

A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—

- (a) the qualifying expenditure is expenditure on mineral exploration and access,
- (b) he gives up the exploration, search or inquiry to which the expenditure related in that chargeable period, and
- (c) he does not then or later carry on a mineral extraction trade which consists of or includes the working of mineral deposits to which the expenditure related.

428 Ceasing to work mineral deposits

- (1) A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—
 - (a) in that chargeable period he permanently ceases to work particular mineral deposits, and
 - (b) the qualifying expenditure is expenditure incurred—

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- (i) on mineral exploration and access relating solely to those deposits, or
 - (ii) on acquiring a mineral asset consisting of those deposits or part of them.
- (2) If the person carrying on the mineral extraction trade is entitled to two or more mineral assets which at any time were—
 - (a) comprised in a single mineral asset, or
 - (b) otherwise derived from a single mineral asset,subsection (1) does not apply until such time as the person permanently ceases to work the deposits comprised in all the mineral assets concerned taken together.
- (3) For the purposes of subsection (2), if a mineral asset relates to, but does not actually consist of, mineral deposits, the deposits to which the asset relates are to be treated as comprised in the asset.

429 Buildings etc. for benefit of employees abroad ceasing to be used

A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—

- (a) the expenditure is qualifying expenditure under section 415 (contributions to buildings or works for benefit of employees abroad), and
- (b) in that chargeable period the buildings or works permanently cease to be used for the purposes of or in connection with the mineral extraction trade.

430 Disposal of asset, etc.

- (1) A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—
 - (a) the qualifying expenditure was incurred on the provision of any assets, and
 - (b) in that chargeable period any of those assets—
 - (i) is disposed of, or
 - (ii) otherwise permanently ceases to be used by him for the purposes of the mineral extraction trade.
- (2) A person's entitlement to an allowance for a chargeable period is to a balancing allowance if any of the following events occurs in that chargeable period in relation to assets representing the qualifying expenditure—
 - (a) the person loses possession of the assets in circumstances where it is reasonable to assume that the loss is permanent;
 - (b) the assets cease to exist as such (as a result of destruction, dismantling or otherwise);
 - (c) the assets begin to be used wholly or partly for purposes other than those of the mineral extraction trade carried on by the person.

431 Discontinuance of trade

A person's entitlement to an allowance for a chargeable period is to a balancing allowance if in that chargeable period the mineral extraction trade is permanently discontinued.

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

[^{F10}431A Foreign permanent establishment exemption

- (1) Subsection (2) applies if—
- (a) an election under section 18A of CTA 2009 has effect in relation to a company, and
 - (b) the company carries on any trade which consists of, or includes, the working of a source of mineral deposits.
- (2) That trade so far as carried on through one or more permanent establishments outside the United Kingdom is treated for the purposes of this Part as a trade—
- (a) separate from any other trade of the company, and
 - (b) all the profits and gains from which are not, or (if there were any) would not be, chargeable to tax.

Textual Amendments

F10 Ss. 431A-431C inserted (with effect in accordance with s. 67(9) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [s. 67\(7\)](#)

431B Disposal value: no allowance/no charge cases

- (1) If—
- (a) an election under section 18A of CTA 2009 has effect in relation to a company, and
 - (b) the operation of sections 431A and 421(1)(b)(ii) and (2) requires the company to bring the disposal value of an asset into account,
- the disposal value is such an amount as gives rise to neither a balancing allowance nor a balancing charge.
- (2) Subsection (1) does not apply if—
- (a) the company's qualifying expenditure in respect of the asset exceeds £5 million,
 - (b) the company has claimed any capital allowance in respect of any of that expenditure, and
 - (c) the company has, at any time in a relevant accounting period, used the asset otherwise than for the purposes of a permanent establishment outside the United Kingdom.
- (3) In subsection (2)(c) “relevant accounting period” means an accounting period ending before, but ending not more than 6 years before, “the relevant day” as defined by section 18F of CTA 2009.

Textual Amendments

F10 Ss. 431A-431C inserted (with effect in accordance with s. 67(9) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [s. 67\(7\)](#)

431C Notional allowances

- (1) Subsection (2) applies if—

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6. (See end of Document for details)

- (a) an election under section 18A of CTA 2009 has effect in relation to a company, and
 - (b) but for section 18A of CTA 2009 and section 431A(2)(b), an allowance under this Part (“the notional allowance”) could be claimed under section 3(1) in respect of assets provided for the purposes of a permanent establishment outside the United Kingdom through which business is or has been carried on by the company.
- (2) The notional allowance (and any charge in connection with it which would have arisen if the allowance had been claimed) is to be made automatically and reflected in any calculation, for any relevant accounting period of the company, of the profits or losses attributable to business carried on by the company through such a permanent establishment.
- (3) Subsection (4) applies if, at the time an election under section 18A of CTA 2009 takes effect in relation to a company, the company is, by reason of sections 431A and 421(1)(b)(ii) and (2), required to bring into account the disposal value of any asset provided for the purposes of a foreign permanent establishment through which business is or has been carried on by the company.
- (4) For the purposes of subsections (1) and (2), the company is treated as having incurred at that time, for the purposes of the trade mentioned in section 431A(2), qualifying expenditure of an amount equal to that disposal value.
- (5) In subsection (2) “relevant accounting period”, in relation to a company by which an election under section 18A of CTA 2009 is made, means an accounting period of the company to which the election applies (as to which see section 18F of that Act).]

Textual Amendments

F10 Ss. 431A-431C inserted (with effect in accordance with s. 67(9) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 67\(7\)](#)

[^{F11}431D] Persons leaving cash basis

- (1) This section applies if—
- (a) a person carrying on a mineral extraction 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—
- (a) the “relieved portion” of the expenditure is the higher of the following—
 - (i) the amount of that expenditure for which a deduction was allowed in calculating the profits of the trade, or

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- (ii) 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;
 - (b) the “unrelieved portion” of the expenditure is any remaining amount of the expenditure.
- (3) An amount of the expenditure equal to the amount (if any) by which the unrelieved portion of the expenditure exceeds the relieved portion of the expenditure is to be regarded as qualifying expenditure incurred by the person in the chargeable period.
- (4) 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

F11 S. 431D 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. 55](#)

Changes to legislation:

There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 6.