

SCHEDULES

SCHEDULE 14

CAPITAL ALLOWANCES ON LONG-LIFE ASSETS

New Chapter on long-life assets

- 2 In Part II (machinery and plant), the following new Chapter shall be inserted after Chapter IV (short-life assets)—

“CHAPTER IVA

LONG-LIFE ASSETS

Expenditure to which Chapter applies

38A Application of Chapter

- (1) Subject to sections 38B to 38D and 38H, this Chapter applies to any capital expenditure incurred by a person on the provision of machinery or plant if that machinery or plant is a long-life asset.
- (2) For the purposes of this Chapter machinery or plant is a long-life asset if—
 - (a) in the case of machinery or plant that is new, it is reasonable to expect that the machinery or plant will have a useful economic life of at least twenty-five years; or
 - (b) in any other case, it was reasonable, when the machinery or plant was new, to expect that it would have a useful economic life of at least twenty-five years.
- (3) For the purposes of this section the useful economic life of machinery or plant is the period which—
 - (a) begins with the first occasion on which the machinery or plant is brought into use by any person for any purpose; and
 - (b) continues until the machinery or plant ceases to be machinery or plant that is or is likely to be used (whether or not by the person who first brought it into use and whether or not in a manner in which he used it) as a fixed asset of a business.
- (4) Where, by virtue of any of the following provisions of this Chapter, this Chapter applies to part only of the expenditure incurred by any person on the provision of any long-life asset, this Act shall have effect in relation to that expenditure as if the part to which this Chapter applies and the part to which it does not were, in each case, expenditure on a separate item of machinery or plant.

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- (5) For the purposes of subsection (4) above all such apportionments shall be made as may be just and reasonable.

38B Expenditure excluded from the application of the Chapter

- (1) This Chapter does not apply to expenditure on the provision of machinery or plant which is a fixture in, or is provided for use in, any building used wholly or mainly—
- (a) as a dwelling-house, retail shop, showroom, hotel or office; or
 - (b) for purposes ancillary to the purposes of a dwelling-house, retail shop, showroom, hotel or office.
- (2) This Chapter does not apply to any expenditure on the provision of—
- (a) a motor car; or
 - (b) a mechanically propelled road vehicle which would be a motor car but for section 36(1)(c).
- (3) This Chapter does not apply to any expenditure incurred before 1st January 2011 on the provision of a ship of a sea-going kind if each of the following conditions is satisfied—
- (a) that ship is not an offshore installation for the purposes of the Mineral Workings (Offshore Installations) Act 1971;
 - (b) that ship would not be such an installation if the activity for the carrying on of which it is or is to be established or maintained were carried on in or under controlled waters (within the meaning of that Act); and
 - (c) the primary use to which ships of the same kind as that ship are put by the persons to whom they belong (or, where their use is made available to others, by those others) is a use otherwise than for sport or recreation.
- (4) This Chapter does not apply to any expenditure incurred before 1st January 2011 on the provision of a railway asset provided for use (whether by the person incurring the expenditure or by any other person) wholly and exclusively for the purposes of a railway business.
- (5) In this section—
- “fixture” has the same meaning as in Chapter VI of this Part;
- “goods” has the same meaning as in Part I of the Railways Act 1993;
- “light maintenance depot” means—
- (a) any light maintenance depot within the meaning of Part I of the Railways Act 1993, or
 - (b) any land or other property which, in relation to anything which is a railway only where “railway” has the wider meaning given by section 81(2) of that Act, is the equivalent of such a depot;
- “railway” has the wider meaning given by section 81(2) of the Railways Act 1993 (which defines railway so as to include tramways and other systems of guided transport);
- “railway asset” means any of the following—

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- (a) any locomotive, tram or other vehicle designed or adapted for use on a railway;
- (b) any carriage, wagon or other rolling stock designed or adapted for such use;
- (c) anything which is or is to be comprised in any railway track, railway station or light maintenance depot; and
- (d) any apparatus falling to be installed in association with anything within paragraph (c) above;

“railway business” means so much of any business as is carried on for the provision of a service to the public for the carriage of goods or passengers by means of a railway in the United Kingdom or the Channel Tunnel;

“railway station” includes anything included in the definition of “station” in section 83 of the Railways Act 1993 and anything that would be so included if, in that section, “railway” had the wider meaning given by section 81(2) of that Act;

“railway track” includes anything included in the definition of “track” in section 83 of the Railways Act 1993 and anything that would be so included if, in that section, “railway” had the wider meaning given by section 81(2) of that Act;

“retail shop” includes any premises of a similar character where retail trade or business (including repair work) is carried on.

- (6) For the purposes of subsection (4) above a railway asset falling within paragraph (a) or (b) of the definition in subsection (5) above shall not be treated as used otherwise than wholly and exclusively for the purposes of a railway business by reason only that it is used to carry goods or passengers from places in the United Kingdom to places outside the United Kingdom or vice versa.

38C Exclusion of Chapter where limit for individuals and partnerships not exceeded

- (1) Subject to section 38F(3), this Chapter does not apply to any expenditure incurred by an individual, or by a partnership of which all the members are individuals, unless that expenditure is—
 - (a) expenditure incurred in a chargeable period the relevant limit for which is exceeded in the case of that individual or partnership; or
 - (b) expenditure which is not subject to that limit.
- (2) For the purposes of this section the relevant limit for a chargeable period is exceeded in the case of an individual or partnership if the total amount of capital expenditure which—
 - (a) is incurred in that period by that individual or partnership,
 - (b) is subject to the limit, and
 - (c) is or, disregarding this section, would be expenditure to which this Chapter applies,exceeds the limit applying to that period.
- (3) For the purposes of this section expenditure incurred by an individual is subject to the relevant limit for a chargeable period if—

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- (a) it was incurred by him for the purposes of a trade or profession carried on by him;
 - (b) that individual devotes substantially the whole of his time in that chargeable period to the carrying on of that trade or profession; and
 - (c) the expenditure is not excluded from the operation of the limit.
- (4) For the purposes of this section expenditure incurred by a partnership is subject to the relevant limit for a chargeable period if—
- (a) it was incurred by the partnership for the purposes of a trade or profession carried on by that partnership;
 - (b) at all times throughout that period at least half of the individuals who are for the time being members of the partnership are devoting substantially the whole of their time to the carrying on of that trade or profession; and
 - (c) the expenditure is not excluded from the operation of the limit.
- (5) For the purposes of this section the expenditure which is excluded from the operation of the relevant limit for a chargeable period is any expenditure falling within any of the following paragraphs, that is to say—
- (a) expenditure on the provision of a share in machinery or plant;
 - (b) expenditure which is treated as expenditure on the provision of machinery or plant by virtue of section 154 (contributions);
 - (c) expenditure incurred on the provision of machinery or plant for leasing (whether or not the leasing is in the course of a trade).
- (6) The limit applying for the purposes of this section to a chargeable period of twelve months is £100,000.
- (7) The limit applying for the purposes of this section to a chargeable period which is not twelve months is the amount given by a proportional reduction or, as the case may require, increase of £100,000.
- (8) Where, in the case of any contract for the provision of machinery or plant, the capital expenditure which is or is to be incurred under that contract is or may fall to be treated for the purposes of this Act as incurred in different chargeable periods, all of the expenditure falling to be incurred under that contract on the provision of that machinery or plant shall be treated for the purposes of this section as incurred in the first chargeable period in which any of that expenditure is incurred.
- (9) This section does not apply for the purposes of corporation tax.

38D Exclusion of Chapter where company's limit not exceeded

- (1) Subject to section 38F(3), this Chapter does not apply for the purposes of corporation tax to any expenditure by a company unless that expenditure is—
- (a) expenditure incurred in a chargeable period the relevant limit for which is exceeded in relation to that company; or
 - (b) expenditure excluded from the operation of that limit.
- (2) For the purposes of this section the relevant limit for a chargeable period is exceeded in relation to a company only if the total amount of capital expenditure which—

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- (a) is incurred by that company in that period,
 - (b) is not excluded from the operation of that limit, and
 - (c) is or, disregarding this section, would be expenditure to which this Chapter applies,exceeds the limit applying to that period.
- (3) Subject to subsection (5) below, the limit applying for the purposes of this section to a chargeable period of twelve months is £100,000.
- (4) Subject to subsection (5) below, the limit applying for the purposes of this section to a chargeable period of less than twelve months is the amount given by a proportional reduction of £100,000.
- (5) Where, in a chargeable period, a company has one or more associated companies, the limit applying to that period for the purposes of this section shall be the amount produced by—
 - (a) taking the amount given for that period by subsection (3) or, as the case may be, subsection (4) above; and
 - (b) dividing that amount by one plus the number of those companies.
- (6) Subsections (4) and (5) of section 13 of the principal Act (which identify the companies that are to count as associated companies for the purposes of section 13(3) of that Act) shall apply for the purposes of subsection (5) above as they apply for the purposes of subsection (3) of that section.
- (7) Subsections (5) and (8) of section 38C apply for the purposes of this section as they apply for the purposes of that section.

Rules applying to expenditure on long-life assets

38E Separate pools for expenditure on long-life assets

- (1) Where expenditure to which this Chapter applies has been incurred on the provision of machinery or plant wholly and exclusively for the purposes of a trade (“the actual trade”), the following provisions of this section shall have effect with respect to the allowances and charges to be made under section 24 in the case of the actual trade.
- (2) It shall be assumed for the purposes of sections 24, 25 and 26—
 - (a) that the person carrying on the actual trade incurred the expenditure on the provision of the machinery or plant wholly and exclusively for the purposes of a trade carried on by him separately from the actual trade and from any other trade which he in fact carries on or is assumed for any purpose to carry on;
 - (b) that the purposes for which the machinery or plant is used (whether wholly or partly) are purposes of the separate trade if they are purposes of the actual trade, but not otherwise; and
 - (c) that the separate trade is permanently discontinued if the actual trade is or is treated as permanently discontinued, but not otherwise.
- (3) Any allowance or charge under section 24 which, on those assumptions and having regard to subsection (4) below, would fall to be made for any

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chargeable period in the case of the separate trade shall be made for that period in the case of the actual trade.

- (4) If an allowance under section 24 falling by virtue of this section to be made for any chargeable period (“the earlier period”) in the case of the actual trade—
- (a) is not claimed, or
 - (b) is reduced in amount in accordance with a requirement under subsection (3) of that section,
- then, in determining the allowance or charge under that section which would fall to be made for any subsequent chargeable period in the case of the separate trade, any allowance falling to be made in the case of the separate trade for the earlier period shall be treated as not claimed or, as the case may require, as proportionately reduced.
- (5) Where there is more than one item of machinery or plant to which subsection (2) above applies in the case of any person, this section shall have effect as if the separate trade for which, in that person’s case, each of those items is treated as used were the same separate trade.
- (6) The reference in subsection (1) above to expenditure incurred on the provision of machinery or plant wholly and exclusively for the purposes of a trade does not include a reference to any amount falling by virtue of section 31, 61, 79 or 80 to be treated as incurred on the provision of machinery or plant wholly and exclusively for the purposes of the separate trade mentioned in that section.

38F Modifications applying to pools for long-life assets

- (1) Where sections 24, 25 and 26 apply, in any of the cases mentioned in subsection (2) below, to any expenditure to which this Chapter applies, they shall so apply as if the reference in section 24(2) to 25 per cent. were a reference to 6 per cent.
- (2) Those cases are—
- (a) any case where sections 24, 25 and 26 apply in accordance with section 31, 38E, 79 or 80; and
 - (b) any case where the machinery or plant in question is machinery or plant to which section 61 applies.
- (3) Where—
- (a) any person entitled to do so has made a Part II claim in respect of expenditure incurred on the provision of any plant or machinery,
 - (b) that expenditure was expenditure falling to be treated for the purposes of that claim as expenditure to which this Chapter applies,
 - (c) at any time after the making of that claim, that person or another person makes a Part II claim in respect of any capital expenditure incurred at any time (including a time before the incurring of the expenditure to which the earlier claim relates) on the provision of the same machinery or plant,
 - (d) the expenditure to which the later claim relates would not (but for this subsection) be treated for the purposes of the later claim as expenditure to which this Chapter applies, and

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- (e) the expenditure to which the later claim relates does not fall within paragraph (d) above by virtue of being expenditure which is prevented by section 38B from being expenditure to which this Chapter applies,

this Part shall have effect in relation to the later claim as if the expenditure to which it relates were expenditure to which this Chapter applies.

- (4) References in this section to the making of a Part II claim in respect of any expenditure are references to any of the following—
 - (a) the making of a return in which that expenditure is taken into account in determining a person's qualifying expenditure for the purposes of section 24;
 - (b) the giving of notice of any such amendment of a return as provides for the expenditure to be so taken into account;
 - (c) the making, in any other manner, of a claim for the expenditure to be so taken into account.
- (5) In subsection (4) above "return" means any return required to be made under the Taxes Management Act 1970 for income tax or corporation tax purposes.
- (6) In the case of expenditure falling within subsection (1) of section 42, this section has effect subject to subsections (3) to (7) of that section.

38G Disposal value of long-life assets

- (1) If, in a case where sections 24, 25 and 26 have had effect in accordance with section 38F(1) in relation to any expenditure incurred by a person ("the charged person")—
 - (a) an event occurs by reason of which a disposal value of that machinery or plant is to be brought into account by the charged person in accordance with section 24,
 - (b) the amount of the disposal value to be so brought into account would (but for this section) be less than the notional written-down value of the machinery or plant, and
 - (c) the event is comprised in, or occurs in pursuance of, any scheme or arrangement which has avoidance as its main object, or as one of its main objects,

this Part shall have effect in relation to the charged person as if the amount of the disposal value to be brought into account were equal to the notional written-down value of the machinery or plant.

- (2) In this section "the notional written-down value", in relation to any machinery or plant, means the amount which, if—
 - (a) it were the disposal value falling to be brought into account as mentioned in subsection (1) above, and
 - (b) the assumptions set out in subsection (3) below were made,would give rise to neither a balancing allowance nor a balancing charge for the chargeable period for which that disposal value is to be brought into account.
- (3) The assumptions mentioned in subsection (2) above are—

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- (a) subject to paragraph (b) below, that expenditure on the provision of the machinery or plant were the only expenditure ever taken into account in determining the charged person's qualifying expenditure for the purposes of section 24;
 - (b) that that expenditure were not, in the charged person's case, prevented by section 38C or 38D from being expenditure to which this Chapter applies; and
 - (c) that the full amount of every allowance to which the charged person was entitled in respect of that expenditure had been made to him.
- (4) The reference in subsection (1) above to avoidance is a reference to—
- (a) the obtaining under this Part for the charged person of an allowance or deduction or of a greater allowance or deduction, or
 - (b) the avoidance or reduction of a charge under this Part on the charged person.

Transitional provisions

38H Transitional provisions

- (1) This Chapter does not apply—
- (a) to any expenditure incurred before 26th November 1996; or
 - (b) to any expenditure incurred before 1st January 2001 in pursuance of a contract entered into before 26th November 1996.
- (2) This Chapter does not apply to expenditure incurred by any person (“the purchaser”) on the acquisition of any long-life asset from another person (“the seller”) in a case where—
- (a) the seller has made a Part II claim in respect of expenditure incurred on the provision of that asset (“the seller's expenditure”),
 - (b) that claim is one which the seller was entitled to make,
 - (c) the seller's expenditure was not expenditure falling for the purposes of that claim to be treated as expenditure to which this Chapter applies, and
 - (d) the seller's expenditure would have fallen to be so treated if one or more of the assumptions specified in subsection (3) below were made.
- (3) Those assumptions are—
- (a) that expenditure falling within paragraph (a) or (b) of subsection (1) above is not prevented by that paragraph from being expenditure to which this Chapter applies;
 - (b) that the seller's expenditure was not prevented by subsection (2) above from being expenditure to which this Chapter applies; and
 - (c) that this Chapter or, as the case may require, provision corresponding to it applied for chargeable periods ending before 26th November 1996.
- (4) The reference in subsection (1) above to expenditure incurred in pursuance of a contract entered into before 26th November 1996 does not, in the case of a contract varied at any time on or after that date, include a reference to so

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much of the expenditure incurred under that contract as exceeds the amount of the expenditure that would have been incurred if that contract had not been so varied.

- (5) Subsections (4) and (5) of section 38F have effect for the purposes of this section as they have effect for the purposes of that section.”