These notes refer to the Capital Allowances Act 2001
(c.2) which received Royal Assent on 22nd March 2001

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

BACKGROUND

Capital allowances

11. In general taxpayers cannot deduct capital expenditure in arriving at their income or profits. Depreciation in commercial accounts is not allowed as a deduction for tax purposes. Capital allowances, broadly speaking, take the place of depreciation charged in the commercial accounts.

12. Capital allowances give taxpayers relief for certain kinds of expenditure. The Act deals with who gets relief for what expenditure, when and how.

13. Allowances are available mainly for expenditure on:

    - plant and machinery;
    - industrial buildings;
    - agricultural buildings;
    - mineral extraction;
    - research and development;
    - know-how;
    - patents;
    - dredging; and
    - dwelling-houses let on assured tenancies.

14. Capital expenditure does not necessarily qualify for any of these allowances. For example, expenditure on commercial buildings normally gives no entitlement to allowances.

15. Some allowances are given only for expenditure incurred in a specific period.