

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 11: Contributions

Chapter 1: Exclusion of expenditure met by contributions

Overview

1849. This Chapter gives the rules for contributions for a recipient (R).
1850. [Section 532](#) is the general rule. The recipient (R) is not treated as incurring expenditure if it is met by a contribution. This section does not apply for dredging but [section 533](#) gives a similar rule for that.
1851. [Sections 534 to 536](#) are exceptions to the general rule in [section 532](#) for:
- Northern Ireland regional development grants;
 - insurance or other compensation; and
 - some contributions by persons (other than public bodies) who cannot get tax relief for them.

Section 532: The general rule excluding contributions

1852. This section is based on parts of [sections 153\(1\) and \(4\) and 134\(8\)](#) of CAA 1990 together with part of [section 532\(1\)](#) of ICTA. It gives the general rule excluding contributions from expenditure for the purposes of all Parts other than Part 9. It also defines “public body” for the purposes of Chapter 1.
1853. [Section 532\(1\)](#) of ICTA treats [sections 520 to 531 and 533](#) as if they were contained in CAA 1990.

Section 533: Exclusion of contributions to dredging

1854. This section is based on [section 134\(8\)](#) of CAA 1990. It gives the rule excluding contributions to expenditure on dredging.

Section 534: Northern Ireland regional development grants

1855. This is the first of three sections which make exceptions to the general rule in [section 532](#). It is based on parts of [section 153\(1\)](#) of CAA 1990 and [section 137](#) of FA 1982. It leaves expenditure met by Northern Ireland regional development grants to qualify for capital allowances (if, of course, the necessary conditions are met).
1856. *Subsection (1)* uses the term “Northern Ireland legislation”. This term is defined by [Schedule 1 and section 24\(5\)](#) of the Interpretation Act 1978. [Paragraph 3 of Schedule 13](#)

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to the Northern Ireland Act 1998 provides an amendment which would cover Acts of the Assembly.

1857. *Subsections (2) and (3)* are based on section 137 of FA 1982. Their effect is that the general rule in section 532 excluding contributions does apply (despite subsection (1)) if a grant is “netted off” by paragraph 8 of Schedule 3 to OTA 1975 for the purposes of arriving at expenditure for petroleum revenue tax relief. In summary, in these particular circumstances the recipient (R) cannot get capital allowances.
1858. Subsection (3) deals with a subset of these cases if part of the expenditure met by the grant would have qualified for petroleum revenue tax relief (but for paragraph 8) and part would not have. The part which would not have qualified for relief is left for the “normal” capital allowances rules to apply. In summary, the recipient (R) may be able to get capital allowances for that part of the grant.
1859. [Paragraph 106](#) of Schedule 3 maintains other provisions relating to this exception which have at most only transitional effect.

Section 535: Insurance or compensation money

1860. This section is based on part of section 153(2) of CAA 1990. It excludes from the general rule insurance or other compensation payable in respect of the destruction of an asset and similar disposal events.
1861. There is a minor change. In CAA 1990 this exception does not apply for Part VII (R&D allowances). This Act applies the exception to Part 6 (R&D allowances). So expenditure is not denied R&D allowances because it was met by insurance or the like. See *Change 58* in Annex 1.

Section 536: Contributions not made by public bodies and not eligible for tax relief

1862. This section is based mainly on section 153(2) and (3) of CAA 1990. It excludes contributions from the general rule (and so leaves the recipient (R) with expenditure which might qualify for allowances) if the conditions in subsections (2) and (3) are met. There are two minor changes.
1863. *Subsections (3) and (5)* are based on section 153(2)(b) of CAA 1990. In sections 153 to 155 of CAA 1990 there are explicit references to a profession or vocation as well as a trade. But Part II of CAA 1990 treats some other activities (“qualifying activities” in Part 2 of this Act) as trades for various purposes.
1864. [Section 27](#), which treats professions and vocations (and offices and employments) like trades, does so only for the purposes of Part II of CAA 1990. So “trade” in sections 153 to 155 of CAA 1990 clearly does not have its meaning extended by section 27 (although as mentioned above it is explicitly extended to mean also profession and vocation).
1865. Sections 28, 28A and 29 of CAA 1990 deem other things to be trades. Their effect is not limited in the same way to Part II of CAA 1990. So whether or not “trade” in sections 153 to 155 includes them is not clear. This affects both the contributor (C) and the recipient (R) (because if C’s activity is included it may mean R cannot get allowances).
1866. This Act replaces these deemed trades by qualifying activities in Part 2. As a result this Part makes explicit the activities to which it applies for the purposes of plant and machinery allowances. Subsection (5) does this. See *Change 59* in Annex 1.
1867. In section 153 of CAA 1990 this exception does not apply for Part VII (R&D allowances). In this Act it does. As with paragraph 1861 above, see *Change 58* in Annex 1.
1868. Section 126(4) of FA 1990 makes a similar exception for contributions out of certain pools payments. That legislation is not incorporated in this Act as the likelihood of

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contributions being made now is very small. Section 126(4) will, however, continue in force should there be any such contributions in periods covered by this legislation.

1869. [Paragraph 107](#) of Schedule 3 maintains the transitional provisions in section 153(5) of CAA 1990 for contributions made before 27 July 1989.

1870. “Public body” is defined in section 532.