

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 2: Plant and machinery allowances

Chapter 15: Asset provided or used only partly for qualifying activity

Overview

740. This Chapter restricts writing-down allowances, balancing allowances and balancing charges for plant and machinery which is provided or used only partly for the purposes of the qualifying activity.
741. [Section 205](#) deals with the reduction of first-year allowances if it appears that the plant or machinery is provided only partly for the qualifying activity.
742. [Section 206](#) provides that qualifying expenditure on plant or machinery provided or used partly for the purposes of the qualifying activity and partly not is allocated to a single asset pool. It also gives rules for that pool.
743. [Section 207](#) reduces writing-down allowances, balancing allowances and balancing charges for plant or machinery used partly for the purposes of the qualifying activity and partly not.
744. [Section 208](#) is an anti-avoidance provision. It provides a disposal event if:
- there is a significant reduction in the use for the purposes of the qualifying activity; and
 - the market value of the asset exceeds the available qualifying expenditure in the single asset pool by more than £1 million.

Background

745. The general conditions as to availability of plant and machinery allowances are in section 11. Subsection (4)(a) says that expenditure on the provision of plant or machinery has to be wholly or partly for the purposes of the qualifying activity. This Chapter explains how allowances are computed if use is only “partly”.
746. The idea is that allowances should be restricted in a “just and reasonable” way having particular regard to the extent to which the plant or machinery is used for purposes other than those of the qualifying activity. In practice this means that allowances are reduced proportionately for non-qualifying use (for example, private use in the case of a sole trader).
747. It would be impossible to achieve the correct adjustment if the expenditure was pooled with expenditure on other plant or machinery. So this Chapter requires a single asset

pool. For rules about pooling in general see Chapter 5. Section 54(2) contains the rule that a single asset pool cannot contain expenditure relating to more than one asset.

Section 205: Reduction of first-year allowances

748. This section is based on section 79(1) of CAA 1990. It restricts first-year allowances.
749. *Subsection (1)* restricts a first-year allowance if it appears that the plant or machinery will be used for purposes other than those of the qualifying activity. The reduction of allowances must be just and reasonable having regard to the relevant circumstances.
750. *Subsection (2)* expands the meaning of “relevant circumstances”. These include looking forward to the extent to which the plant or machinery is likely to be used for purposes other than those of the qualifying activity. There may be other circumstances.
751. *Subsection (3)* is makes clear the reduction in first-year allowances does not increase the qualifying expenditure on which writing-down allowances can be claimed in later chargeable periods. See *Note 38* in Annex 2.

Section 206: Single asset pool etc.

752. This section is based on section 79(2), (3) and (4) of CAA 1990. It provides for single asset pools for all expenditure incurred partly for the purposes of the qualifying activity and partly for other purposes.
753. *Subsections (1)* and *(2)* set up the single asset pool.
754. *Subsection (3)* sets up a single asset pool when any expenditure already in a pool starts to be use partly for purposes other than those of the qualifying activity. The plant or machinery will previously have been used wholly for the purposes of the qualifying activity. This subsection picks up the consequences of the disposal event in section 61(1)(e). The value of the disposal event will be market value, derived from the Table in section 61.
755. *Subsection (4)* disapplies section 61(1)(e) for expenditure already in a single asset pool under this Chapter.

Section 207: Reduction of allowances and charges on expenditure in single asset pool

756. This section is based on section 79(2), (5) and (6) of CAA 1990. It provides rules for balancing allowances and charges which are equivalent to those for writing-down allowances.
757. *Subsection (3)* expands the meaning of “relevant circumstances”. These include looking forward to the extent to which the plant or machinery is likely to be used for purposes other than those of the qualifying activity. There may be other circumstances, including for example use in previous years.
758. *Subsection (4)* is new and is intended to clarify the position in future years of qualifying expenditure which was subject to a restriction of writing-down allowances under this section. See *Note 38* in Annex 2.

Section 208: Effect of significant reduction in use for purposes of qualifying activity

759. This section is based on section 79A of CAA 1990 which was introduced by section 79(2) of FA 2000. It is an anti-avoidance rule. It provides for a special disposal event at market value if:
- there is a significant reduction in the use for the purposes of the qualifying activity;
 - and

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

- the market value of the asset exceeds the available qualifying expenditure in the single asset pool by more than £1 million.
760. *Subsection (1)* sets out the conditions that have to apply and *subsection (2)* gives the effect. The disposal value in *subsection (2)* will be market value (from the Table in section 61).
761. *Subsection (2)* will mean that the single asset pool ends and a new one begins because of the general pooling rules for the final chargeable period in section 65.