

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 2: Plant and machinery allowances

Chapter 16: Partial depreciation subsidies

Overview

- 762. This Chapter deals with partial depreciation subsidies. These occur if some other person makes a payment to take account of some of the depreciation on an asset.
- 763. [Section 209](#) defines “partial depreciation subsidy”.
- 764. [Section 210](#) reduces first-year allowances if it appears that there will be a partial depreciation subsidy.
- 765. [Section 211](#) provides that qualifying expenditure subject to a partial depreciation subsidy is allocated to a single asset pool and gives rules for that pool.
- 766. [Section 212](#) provides for the reduction of writing-down allowances, balancing allowances and balancing charges for expenditure in a single asset pool under this Chapter.

Background

- 767. If the payment covers all of the depreciation, section 37 will prevent the plant or machinery qualifying for allowances unless the payment is taken into account as income.
- 768. This Chapter is similar to Chapter 15 in that it provides for a just and reasonable reduction of allowances and charges and for single asset pools to enable the reductions to be taken into account.
- 769. It would be impossible to achieve the correct adjustment if expenditure on the asset were kept in a pool with other assets. So this Chapter provides for single asset pools. 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.
- 770. Section 80(7) of CAA 1990 has not been rewritten as such because it defines a term, “relevant period”, which is not necessary in this Act.

Section 209: Meaning of “partial depreciation subsidy”

- 771. This section is based on section 80(1), (2) and (3) of CAA 1990. The term “depreciation subsidy” is new and is used in this Act instead of the term “wear and tear subsidy” which is used by section 80 of CAA 1990. See *Note 13* in Annex 2.

Section 210: Reduction of first-year allowances

772. This section is based on section 80(2) of CAA 1990. It provides for a just and reasonable reduction to any first-year allowance if it appears that there will be a partial depreciation subsidy payable during the period of use.
773. *Subsection (2)* is new and is intended to clarify the position in future years of qualifying expenditure if a first-year allowance has been claimed which was subject to a restriction under this Chapter. See *Note 38* in Annex 2.

Section 211: Single asset pool etc.

774. This section is based on section 80(3), (4), (5) and (7) of CAA 1990. It sets up a single asset pool for qualifying expenditure on plant or machinery when a partial depreciation subsidy is paid.
775. *Subsections (3)* and *(4)* apply if the expenditure has already been allocated to a pool, and not previously been subject to a partial depreciation subsidy. When the subsidy is paid, there is a special disposal event and a single asset pool is set up. This is a disposal event in addition to those listed in section 61(1). The disposal value will be market value, as derived from the Table in section 61.
776. *Subsection (5)* stops there being a disposal event if:
- there is a change in the subsidy; and
 - the expenditure is already in a single asset pool under this Chapter.

Section 212: Reduction of allowances and charges on expenditure in single asset pool

777. This section is based on section 80(3), (5)(b) and (6) of CAA 1990. It deals with the reduction of writing-down allowances, balancing allowances and balancing charges if a partial depreciation subsidy is paid.
778. *Subsection (3)* is new and is intended to clarify the position in future years of qualifying expenditure if a first-year allowance has been claimed which was subject to a restriction under this Chapter. See *Note 38* in Annex 2.