

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 2: Plant and machinery allowances

Chapter 1: Introduction

Overview

110. This Chapter introduces Part 2 by giving the general conditions for plant and machinery allowances and dealing with some common additional cases.
111. [Section 11](#) identifies the general requirement for plant and machinery allowances: a person must carry on a qualifying activity for which they incur qualifying expenditure. If a person carries on more than one qualifying activity each is looked at separately to decide entitlement to allowances. These general rules are subject to other provisions which amend or replace them in various circumstances.
112. [Sections 12 to 14](#) provide for plant and machinery allowances if a person does not meet the general conditions because:
 - expenditure was incurred before the start of the qualifying activity in question;
 - expenditure was incurred for another purpose before the plant or machinery starts to be used for the qualifying activity; or
 - plant or machinery used for a qualifying activity was a gift.

Section 11: General conditions as to availability of plant and machinery allowances

113. This section is based in part on sections 22(1)(a) and 24(1)(a) and (b) of CAA 1990. It gives the general conditions for plant and machinery allowances. It uses the terms “qualifying activity” and “qualifying expenditure” which are central to entitlement to allowances under this Part.
114. *Subsection (1)* sets out the preliminary requirement for the whole of Part 2. Allowances are available if a person carries on a qualifying activity and incurs qualifying expenditure.
115. *Subsection (2)* is a signpost to Chapter 2 of Part 2 which gives the meaning of “qualifying activity”.
116. *Subsection (3)* sets up separate calculations for each qualifying activity.
117. *Subsection (4)* gives the general rule for qualifying expenditure. Subsection (4)(a) uses “wholly or partly” for the purposes of the qualifying activity instead of “wholly and exclusively” used by sections 22(1)(a) and 24(1)(b) of CAA 1990. The use of that term at the start of Part II is potentially misleading. Readers may conclude they are

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

not entitled to plant and machinery allowances if they use an asset partly for other purposes. Yet section 79 of CAA 1990 makes explicit provision for allowances for plant or machinery provided or used partly for a qualifying activity and partly for other purposes. This subsection flags this at the start.

118. Subsection (4)(b) uses “owns”. CAA 1990 refers to plant or machinery which “belongs” to a person in sections 22(1)(b) and 24(1)(b) (and elsewhere). This is a change in the language only. See *Note 7* in Annex 2.
119. *Subsection (5)* is a signpost to Chapter 3 of Part 2 which contains detailed provisions about plant and machinery and qualifying expenditure.

Section 12: Expenditure incurred before qualifying activity carried on

120. This section is based on section 83(2) of CAA 1990. It provides for expenditure incurred before the qualifying activity is carried on to be treated as incurred when the activity is started. Without this the expenditure could not be qualifying expenditure. It complements the trading income rule in section 401 of ICTA.

Section 13: Use for qualifying activity of plant or machinery provided for other purposes

121. This section is based on section 81(1) to (2AB) of CAA 1990. It provides for a person to be treated as having incurred qualifying expenditure if they start to use in a qualifying activity plant or machinery they provided for some other purpose. Without this section such plant or machinery would give no entitlement to allowances.
122. Section 81 of CAA 1990 also deals with gifts. In this Act they are dealt with in section 14. Dividing the material in this way brings out for readers the distinct ways they may be entitled to allowances.

Section 14: Use for qualifying activity of plant or machinery which is a gift

123. This section is based on section 81 of CAA 1990. It contains rules for plant or machinery that was gifted to the person carrying on the qualifying activity.
124. The section is similar to section 13. The plant or machinery received as a gift comes in at market value.
125. There is no equivalent of the anti-avoidance rules in section 13(4) and (5).
126. The anti-avoidance rule in section 81(3) of CAA 1990 has been moved to Chapter 17 of Part 2 – see section 213(3).