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

COMMENTARY ON SECTIONS

Glossary

Part 2: Plant and machinery allowances

Chapter 5: Allowances and charges

Overview

251. This Chapter makes general provision for the calculation of allowances and charges under this Part. Its provisions are subject to adaptations and modifications provided in the following Chapters. They make special provisions for particular types of asset.

252. Section 52 gives the amount of first-year allowance a person is entitled to in a chargeable period if they incur first-year qualifying expenditure and own the plant or machinery. The person may then claim first-year allowances for the whole or part of first-year qualifying expenditure.

253. Sections 53 and 54 require expenditure to be pooled to decide entitlement to allowances or liability to balancing charges. Allowances may be writing-down allowances or balancing allowances. There are single asset pools, class pools and a main pool. Later Chapters define which expenditure must be allocated to a class or single asset pool. Only expenditure which is not allocated to a class or single asset pool is allocated to the main pool. If a person carries on more than one qualifying activity, there are separate pools for each activity.

254. Sections 55 and 56 decide entitlement to an allowance or liability to a charge for each pool for a chargeable period. This depends on the difference between the available qualifying expenditure (AQE) for a pool for the chargeable period and the total of any disposal receipts to be brought into account (TDR):

   - if AQE exceeds TDR, the person is entitled to an allowance. The entitlement is to a writing-down allowance except in the final chargeable period of the pool when it is to a balancing allowance. The rate of writing-down allowances is 25% except for long-life assets (6%) and overseas leasing (10%);
   - if TDR exceeds AQE, the person is liable to a balancing charge equal to the difference.

255. Sections 57 to 59 give the general rules for AQE and pointers to other provisions which affect it. The general rule is that AQE for a pool is the qualifying expenditure allocated to the pool for the chargeable period (section 58) plus any unrelieved qualifying expenditure brought forward from the previous chargeable period (section 59).

256. Section 60 defines “disposal receipt” and “disposal event”:

- a disposal receipt is the amount of any disposal value a person must bring into account;

- a disposal event is an event of the type which requires a person to bring a disposal value into account.

257. General disposal events and disposal values are listed in section 61; there are others elsewhere.

258. Sections 63 to 65 restrict disposal values in some cases. There is a general limit equal to the qualifying expenditure incurred by the person (or in some cases a connected person). The disposal value is nil for some gifts. It is also nil if no first-year allowance is made and no qualifying expenditure is allocated to a pool (subject to additional conditions if the plant or machinery is acquired from a connected person).

259. Section 65 gives the general rules for when there is a final chargeable period for a pool.

260. Section 66 gives pointers to some other provisions dealing with disposal values.