

# CAPITAL ALLOWANCES ACT 2001

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## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS

#### *Glossary*

#### **Part 3: Industrial buildings allowances**

#### *Chapter 7: Balancing adjustments*

#### *Section 325: Balancing allowances restricted where sale subject to subordinate interest*

1104. This section is based on section 5(1), (2), (3) and (5) of CAA 1990. It restricts balancing allowances in two situations involving the sale of the relevant interest in a building which is subject to a subordinate interest:
- *subsection (2)* – if at least two of the three persons involved are connected persons. “Connected persons” are defined in section 575;
  - *subsection (3)* – if the sole or main benefit appears to be the obtaining of an allowance under this Part.
1105. *Subsection (4)* provides that in either of these situations the balancing adjustment is calculated with an increase in the net proceeds of the sale.
1106. *Subsection (5)* limits the amount that is added to the proceeds. This prevents subsection (4) imposing a balancing charge.
1107. *Subsection (6)* deals with a variation of the terms on which the subordinate interest is granted prior to the sale of the relevant interest. Anything received in return for that variation is to be treated as a premium under subsection (4). And the rent, if any, is to be taken as the rent payable under the terms applying immediately before the sale of the relevant interest.
1108. *Subsection (7)* provides that the residue of qualifying expenditure after the sale is to be calculated regardless of an adjustment made by this section. “The residue of qualifying expenditure” is defined in section 313.