

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 3: Industrial buildings allowances

Chapter 8: Writing off qualifying expenditure

Overview

1122. This Chapter provides what qualifying expenditure is written off and when for the purposes of Part 3. How much qualifying expenditure has been written off determines “the residue of qualifying expenditure”. This is defined by section 313 as the qualifying expenditure not written off in accordance with this Chapter.
1123. [Section 332](#) introduces this Chapter.
1124. [Section 333](#) writes off an initial allowance when the building is first used.
1125. [Section 334](#) writes off a writing-down allowance at the end of the chargeable period for which it is made. This is taken to be done immediately before any balancing event which occurs at the end of the chargeable period.
1126. [Section 335](#) writes off R&D allowances in the same way as in the previous section.
1127. [Section 336](#) writes off notional writing-down allowances for periods after the first use of a building when it is not an industrial building.
1128. When a relevant interest in a building is sold, section 337 applies to:
- write off balancing allowances; and
 - increase the residue of qualifying expenditure if a balancing charge is made.
1129. [Section 338](#) writes off capital value realised if section 328 gives rise to a balancing event.
1130. [Section 339](#) writes off qualifying expenditure if the Crown or a person not within the charge to tax is entitled to the relevant interest in a building.
1131. [Section 340](#) adds net demolition costs to the residue of qualifying expenditure in some circumstances.

Section 332: Introduction

1132. This section is based on part of section 8(1) of CAA 1990. It introduces Chapter 8. There is a minor change in this Chapter which appears in section 335. See *Change 39* in Annex 1.

Section 333: Writing off initial allowances

1133. This section is based on section 8(2)(b) of CAA 1990. Initial allowances are written off when the building is first used.

Section 334: Writing off writing-down allowances

1134. This section is based on section 8(3) and (4) of CAA 1990. It provides for writing off writing-down allowances.

1135. *Subsection (2)* deals with the situation in which a balancing event occurs at the end of a chargeable period. In order to calculate the balancing adjustment any writing-down allowance written off for that chargeable period has to be taken into account in calculating the residue of qualifying expenditure immediately before the event. "Residue of qualifying expenditure" is defined in section 313.

Section 335: Writing off research and development allowances.

1136. This section is based on part of section 8(5) and section 8(6) of CAA 1990. It provides for writing off R&D allowances. It otherwise follows the same rules as for writing-down allowances in section 334.

1137. There is a minor change. As a result of a change in approach in Part 6 of this Act from that in CAA 1990 less qualifying expenditure may be written off by this section. See *Change 39* in Annex 1.

Section 336: Writing off expenditure when building not an industrial building

1138. This section is based on section 8(7) of CAA 1990. It writes off notional writing-down allowances for any time after a building is first used when it is not an industrial building.

Section 337: Writing off or increase of expenditure where balancing adjustment made

1139. This section is based on section 8(9), (10) and (11) of CAA 1990. It adjusts the residue of qualifying expenditure for a balancing adjustment if a building is sold.

1140. If a balancing allowance is made on the sale, *subsection (2)* writes off the excess of the residue of qualifying expenditure before the balancing event over the net proceeds from that event. If there is a balancing charge, *subsection (3)* adds it to the residue of qualifying expenditure at the time of the balancing event.

1141. *Subsection (4)* modifies this rule if a balancing charge is made under section 319(6). This occurs if a building has not been an industrial building throughout a relevant period of ownership and a balancing charge is made on the difference between the net allowances made and the adjusted net cost of the building. In this situation the residue of qualifying expenditure after the balancing event must not exceed the net proceeds from that event.

Section 338: Writing off capital value which has been realised

1142. This section is based on section 8(12B) of CAA 1990. It deals with balancing events under section 328 which concern the realisation of capital value. The amount of that capital value realised is written off at the time of the balancing event.

Section 339: Crown or other person not within the charge to tax entitled to the relevant interest

1143. This section is based on section 8(13) and part of section 8(14) of CAA 1990. It is concerned with writing off qualifying expenditure for buildings which belonged to the Crown or persons not within the charge to tax.

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

1144. *Subsection (2)* provides that all the rules concerning writing off qualifying expenditure found in sections 331 to 336 are applied to writing-down allowances and balancing adjustments.
1145. The section refers to “a person who is not within the charge to tax” without the additional words “in the United Kingdom” used in section 8(14) of CAA 1990. The words are not necessary. Omitting them brings this section into line with the wording used elsewhere in CAA 1990 and ICTA. See *Note 42* in Annex 2.

Section 340: Treatment of demolition costs

1146. This section is based on section 8(12) of CAA 1990. It applies to a person who, having incurred demolition costs, faces a balancing allowance or balancing charge as a result of a building being demolished. The net cost of the demolition is added to the residue of qualifying expenditure prior to the demolition. This means the net cost gets tax relief through industrial buildings allowances.
1147. *Subsection (4)* allows the cost of demolition or the net cost of demolition to be treated as expenditure on a replacement property only for the purposes of assured tenancy allowances (Part 10).