



Capital Allowances Act 2001

2001 CHAPTER 2

PART 5

MINERAL EXTRACTION ALLOWANCES

CHAPTER 6

ALLOWANCES AND CHARGES

VALID FROM 24/07/2002

*f¹*First-year allowances

Textual Amendments

- F1** S. 416D and preceding crossheading inserted (with effect as mentioned in s. 63(3) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 63, [Sch. 21 para. 10](#)

416D First-year allowances

- (1) A person is entitled to a first-year allowance in respect of first-year qualifying expenditure if the expenditure is incurred in a chargeable period to which this Act applies.
- (2) Any first-year allowance is made for the chargeable period in which the first-year qualifying expenditure is incurred.
- (3) The amount of the allowance is a percentage of the first-year qualifying expenditure in respect of which the allowance is made, as shown in the Table—

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TABLE

AMOUNT OF FIRST-YEAR ALLOWANCES

<i>Type of first-year qualifying expenditure</i>	<i>Amount</i>
Expenditure qualifying under section 416B (expenditure incurred wholly for the purposes of a ring fence trade)	100%

- (4) A person who is entitled to a first-year allowance may claim the allowance in respect of the whole or a part of the first-year qualifying expenditure.
- (5) This section is subject to section 416E (artificially inflated claims for first-year allowances).

Artificially inflated claims for first-year allowances

F2

416E

- (1) To the extent that a transaction is attributable to arrangements entered into wholly or mainly for a disqualifying purpose, it shall be disregarded in determining for a chargeable period the amount of any first-year allowance to which a person is entitled.
- (2) For the purposes of this section, arrangements are entered into wholly or mainly for a “disqualifying purpose” if their main object, or one of their main objects, is to enable a person to obtain—
- (a) a first-year allowance to which he would not otherwise be entitled, or
 - (b) a first-year allowance of a greater amount than that to which he would otherwise be entitled.
- (3) In this section “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable.]]

Textual Amendments

- F2** S. 416E inserted (with effect as mentioned in s. 63(3) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 63, [Sch. 21 para. 11](#)

*Writing-down and balancing allowances and balancing charges***417 Determination of entitlement or liability**

- (1) Whether a person who has incurred qualifying expenditure is entitled to a writing-down allowance or a balancing allowance, or liable to a balancing charge, for a chargeable period depends on—
- (a) how much of the expenditure is unrelieved qualifying expenditure for that period (“UQE”), and
 - (b) the total of any disposal receipts to be brought into account for that period (“TDR”) by reference to the expenditure.

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- (2) If UQE exceeds TDR, the person is entitled to a writing-down allowance or a balancing allowance for the period.
- (3) If TDR exceeds UQE, the person is liable to a balancing charge for the period.
- (4) The entitlement under subsection (2) is to a writing-down allowance except in cases for which sections 426 to 431 provide for the entitlement to be to a balancing allowance.

418 Amount of allowances and charges

- (1) The amount of the writing-down allowance to which a person is entitled for any chargeable period in respect of qualifying expenditure is—
 - (a) in the case of qualifying expenditure on the acquisition of a mineral asset, 10% of the amount by which UQE exceeds TDR;
 - (b) in the case of other qualifying expenditure, 25% of the amount by which UQE exceeds TDR.
- (2) If the chargeable period is more or less than a year, the amount of the writing-down allowance is proportionately increased or reduced.
- (3) If the mineral extraction trade has been carried on for part only of the chargeable period, the amount of the writing-down allowance is proportionately reduced.
- (4) The amount of the balancing charge to which a person is liable for a chargeable period in respect of qualifying expenditure is—
 - (a) the amount by which TDR exceeds UQE, or
 - (b) if less, the allowances for earlier chargeable periods in respect of the expenditure less the total of any balancing charges for those periods in respect of the expenditure.
- (5) The amount of the balancing allowance to which a person is entitled for a chargeable period in respect of qualifying expenditure is the amount by which UQE exceeds TDR.
- (6) A person claiming a writing-down allowance or a balancing allowance may require the allowance to be reduced to a specified amount.

Unrelieved qualifying expenditure

419 Unrelieved qualifying expenditure

- (1) A person's unrelieved qualifying expenditure for the chargeable period in which the qualifying expenditure is incurred is the whole of it.
- (2) A person's unrelieved qualifying expenditure for a chargeable period after that in which the qualifying expenditure is incurred is the amount, if any, by which it exceeds the aggregate of—
 - (a) the allowances made in respect of the expenditure for earlier chargeable periods, and
 - (b) the total of any disposal receipts for earlier chargeable periods.

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Disposal values

420 Meaning of “disposal receipt”

In sections 417 to 419 “disposal receipt” means a disposal value that a person is required to bring into account in accordance with—

- (a) sections 421 to 425, or
- (b) paragraph 11 of Schedule 12 to FA 1997 (finance lease or loan: receipt of major lump sum) or any other enactment.

421 Disposal of, or ceasing to use, asset

(1) This section applies if—

- (a) a person has incurred qualifying expenditure on providing assets (including the construction of works), and
- (b) any of those assets—
 - (i) is disposed of, or
 - (ii) permanently ceases to be used by him for the purposes of a mineral extraction trade (whether because of the discontinuance of the trade or for any other reason).

(2) The person is required to bring the disposal value of the asset into account for the chargeable period in which the disposal or cessation occurs.

422 Use of asset otherwise than for permitted development etc.

(1) This section applies if—

- (a) a person has acquired a mineral asset,
- (b) at any time after the acquisition, the asset begins to be used (by him or another person) in a way which constitutes development, and
- (c) the development is not—
 - (i) existing permitted development, or
 - (ii) development for the purposes of a mineral extraction trade carried on by the person.

(2) The person is required to bring the disposal value of the mineral asset into account for the chargeable period in which the use begins.

(3) Development is existing permitted development if at the time of the acquisition—

- (a) it has been, or had begun to be, lawfully carried out, or
- (b) it could be lawfully carried out under planning permission granted by a general development order.

(4) In applying subsection (3) in relation to land outside the United Kingdom—

- (a) whether, at the time of the acquisition, development has been, or had begun to be, lawfully carried out is to be determined according to the law of the territory in which the land is situated, and
- (b) whether, at that time, development could be lawfully carried out under planning permission granted by a general development order is to be determined as if the land were in England.

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423 Sections 421 and 422: amount of disposal value to be brought into account

- (1) The disposal value to be brought into account under section 421 or 422 depends on the event requiring it to be brought into account, as shown in the Table—

Table

Disposal value for sections 421 and 422

1. Event	2. Disposal value
1. Sale of the asset, except in a case where item 2 applies.	The net proceeds of the sale, together with— (a) any insurance money received in respect of the asset as a result of an event affecting the price obtainable on the sale, and (b) any other compensation of any description so received, so far as it consists of capital sums.
2. Sale of the asset where— (a) the sale is at less than market value, (b) there is no charge to tax under Schedule E, and (c) the condition in subsection (3) is met by the buyer.	The market value of the asset at the time of the sale.
3. Demolition or destruction of the asset.	The net amount received for the remains of the asset, together with— (a) any insurance money received in respect of the demolition or destruction, and (b) any other compensation of any description so received, so far as it consists of capital sums.
4. Permanent loss of the asset otherwise than as a result of its demolition or destruction.	Any insurance money received in respect of the loss and, so far as it consists of capital sums, any other compensation of any description so received.
5. Permanent discontinuance of the trade followed by the occurrence of an event within any of items 1 to 4.	The disposal value for the item in question.
6. Any event not falling within any of items 1 to 5.	The market value of the asset at the time of the event.

- (2) The amounts referred to in column 2 of the Table are those received by the person required to bring the disposal value into account.
- (3) The condition referred to in item 2 of the Table is met by the buyer if—
- the buyer's expenditure on the acquisition of the asset cannot be qualifying expenditure under Part 2 or 6 (plant and machinery and research and development allowances), or

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- (b) the buyer is a dual resident investing company which is connected with the seller.

424 Disposal value restricted in case of interest in land

- (1) If the asset in relation to which a disposal value is required to be brought into account under section 421 or 422 is an interest in land, the disposal value is restricted by excluding the undeveloped market value of the interest.
- (2) “The undeveloped market value of the interest” means the amount that, at the time of the disposal, the interest might reasonably be expected to fetch on a sale in the open market on the assumptions in subsection (3).
- (3) The assumptions are that—
 - (a) there is no source of mineral deposits on or in the land, and
 - (b) it will only ever be lawful to carry out existing permitted development.
- (4) Development is existing permitted development if at the time of the disposal—
 - (a) it has been, or had begun to be, lawfully carried out, or
 - (b) it could be lawfully carried out under planning permission granted by a general development order.
- (5) In applying subsection (4) in relation to land outside the United Kingdom—
 - (a) whether, at the time of the disposal, development has been, or had begun to be, lawfully carried out is to be determined according to the law of the territory in which the land is situated, and
 - (b) whether, at that time, development could be lawfully carried out under planning permission granted by a general development order is to be determined as if the land were in England.

425 Receipt of capital sum

- (1) This section applies if a person—
 - (a) has incurred qualifying expenditure, and
 - (b) receives a capital sum which, in whole or in part, it is reasonable to attribute to that expenditure.
- (2) The person is required to bring into account as a disposal value for the chargeable period in which the capital sum is received so much of the capital sum as is reasonably attributable to the qualifying expenditure.
- (3) This section does not apply if the capital sum falls to be brought into account under section 421 or 422.

Cases in which a person is entitled to a balancing allowance

426 Pre-trading expenditure

A person’s entitlement to an allowance for a chargeable period is to a balancing allowance if—

- (a) the expenditure is qualifying expenditure under—

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- (i) section 401(4) (pre-trading exploration expenditure where exploration etc. has ceased before first day of trading), or
 - (ii) section 402 (pre-trading expenditure on plant or machinery), and
- (b) the first day of trading occurs in that chargeable period.

427 Giving up exploration, search or inquiry

A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—

- (a) the qualifying expenditure is expenditure on mineral exploration and access,
- (b) he gives up the exploration, search or inquiry to which the expenditure related in that chargeable period, and
- (c) he does not then or later carry on a mineral extraction trade which consists of or includes the working of mineral deposits to which the expenditure related.

428 Ceasing to work mineral deposits

(1) A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—

- (a) in that chargeable period he permanently ceases to work particular mineral deposits, and
- (b) the qualifying expenditure is expenditure incurred—
 - (i) on mineral exploration and access relating solely to those deposits, or
 - (ii) on acquiring a mineral asset consisting of those deposits or part of them.

(2) If the person carrying on the mineral extraction trade is entitled to two or more mineral assets which at any time were—

- (a) comprised in a single mineral asset, or
- (b) otherwise derived from a single mineral asset,

subsection (1) does not apply until such time as the person permanently ceases to work the deposits comprised in all the mineral assets concerned taken together.

(3) For the purposes of subsection (2), if a mineral asset relates to, but does not actually consist of, mineral deposits, the deposits to which the asset relates are to be treated as comprised in the asset.

429 Buildings etc. for benefit of employees abroad ceasing to be used

A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—

- (a) the expenditure is qualifying expenditure under section 415 (contributions to buildings or works for benefit of employees abroad), and
- (b) in that chargeable period the buildings or works permanently cease to be used for the purposes of or in connection with the mineral extraction trade.

430 Disposal of asset, etc.

(1) A person's entitlement to an allowance for a chargeable period is to a balancing allowance if—

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- (a) the qualifying expenditure was incurred on the provision of any assets, and
 - (b) in that chargeable period any of those assets—
 - (i) is disposed of, or
 - (ii) otherwise permanently ceases to be used by him for the purposes of the mineral extraction trade.
- (2) A person's entitlement to an allowance for a chargeable period is to a balancing allowance if any of the following events occurs in that chargeable period in relation to assets representing the qualifying expenditure—
- (a) the person loses possession of the assets in circumstances where it is reasonable to assume that the loss is permanent;
 - (b) the assets cease to exist as such (as a result of destruction, dismantling or otherwise);
 - (c) the assets begin to be used wholly or partly for purposes other than those of the mineral extraction trade carried on by the person.

431 Discontinuance of trade

A person's entitlement to an allowance for a chargeable period is to a balancing allowance if in that chargeable period the mineral extraction trade is permanently discontinued.

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