



# Capital Allowances Act 2001

## 2001 CHAPTER 2

### PART 6

#### RESEARCH AND DEVELOPMENT ALLOWANCES

### CHAPTER 3

#### ALLOWANCES AND CHARGES

#### **441 Allowances**

- (1) A person who incurs qualifying expenditure is entitled to an allowance in respect of that expenditure for the relevant chargeable period equal to—
  - (a) the amount of the qualifying expenditure, or
  - (b) if a disposal value is required to be brought into account for that period in respect of that expenditure, the amount (if any) by which that expenditure exceeds the disposal value.
- (2) The relevant chargeable period is—
  - (a) the chargeable period in which the expenditure is incurred, or
  - (b) if the expenditure was incurred before the chargeable period in which the relevant trade is set up and commenced, that chargeable period.
- (3) A person claiming an allowance under this section may require the allowance to be reduced to a specified amount.

#### **442 Balancing charges**

- (1) This section applies if—
  - (a) an allowance is made to a person for a chargeable period in respect of qualifying expenditure, and
  - (b) the person is required to bring a disposal value into account for a later chargeable period in respect of that expenditure.

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- (2) The person is liable to a balancing charge for the later chargeable period in respect of the qualifying expenditure.
- (3) The amount of the balancing charge is—
- (a) the amount (if any) by which the disposal value to be brought into account for the period exceeds any unclaimed allowance, or
  - (b) if less, the allowance made in respect of the qualifying expenditure.
- (4) “Unclaimed allowance” means any part of the allowance to which the person was entitled in respect of the qualifying expenditure but which has not been claimed.
- (5) This section is to be read with section 449 (effect on balancing charges of additional VAT rebates in earlier chargeable periods).

#### **443 Disposal values and disposal events**

- (1) A person is required to bring a disposal value into account in respect of qualifying expenditure incurred by him if—
- (a) he ceases to own an asset representing the expenditure, or
  - (b) an asset representing the expenditure is demolished or destroyed at a time when he owns the asset.
- (2) Subsection (1) is to be read with section 555 (disposal of oil licence with exploitation value).
- (3) But a person is not required to bring a disposal value into account under subsection (1) if the disposal event gives rise to a balancing charge under Part 2 or 3 (plant and machinery allowances and industrial buildings allowances).
- (4) The disposal value to be brought into account under subsection (1) depends on the disposal event, as shown in the Table—

Table

#### DISPOSAL VALUES

<i>1. Disposal event</i>	<i>2. Disposal value</i>
1. Sale of the asset at not less than market value.	The net proceeds of the sale.
2. 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.
3. Any event not falling within item 1 or 2.	The market value of the asset at the time of the event.

- (5) Subsection (4) is subject to—

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section 445 (costs of demolition),  
section 553 (nil value in case of disposal of oil licence relating to undeveloped area), and  
section 555 (disposal of oil licence with exploitation value).

(6) A person is also required to bring a disposal value into account by section 448 (additional VAT rebate generates disposal value).

(7) In this Chapter “disposal event” means an event of a kind that requires a disposal value to be brought into account under subsection (1).

#### **444 Disposal events: chargeable period for which disposal value is to be brought into account**

(1) The chargeable period for which a disposal value is to be brought into account under section 443(1) in respect of qualifying expenditure is given by this section.

(2) Subsection (3) applies if the disposal event occurs in or after the chargeable period for which the allowance in respect of the expenditure is made.

(3) The disposal value is to be brought into account for—  
(a) the chargeable period in which the event occurs, or  
(b) if the event occurs after the chargeable period in which the relevant trade is permanently discontinued, that chargeable period.

(4) If the disposal event occurs before the chargeable period for which the allowance in respect of the expenditure is made, the disposal value is to be brought into account for that chargeable period.

#### **445 Costs of demolition**

(1) This section applies if—  
(a) an asset representing qualifying expenditure incurred by a person is demolished at a time when the person owns the asset, and  
(b) the person incurred costs of demolition.

(2) The disposal value which the person is required to bring into account in respect of the qualifying expenditure is to be reduced by the cost to the person of the demolition.

(3) If the amount of the disposal value is reduced to nil (or less than nil) under subsection (2), the person is not required to bring a disposal value into account.

(4) If—  
(a) the cost to the person of the demolition exceeds the disposal value, and  
(b) before its demolition the asset had not begun to be used for purposes other than research and development related to the relevant trade,  
the person is to be treated as incurring qualifying expenditure equal to the excess.

(5) That qualifying expenditure is to be treated as incurred—  
(a) when the demolition occurs, or  
(b) if that is on or after the date on which the relevant trade is permanently discontinued, immediately before the discontinuance.

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- (6) If this section applies, the cost to the person of the demolition is not to be treated for the purposes of this Act as expenditure on any property that replaces the demolished asset.