

## SCHEDULES

### SCHEDULE 2

#### CONSEQUENTIAL AMENDMENTS

##### *The Income and Corporation Taxes Act 1988 (c. 1)*

- 11 In subsection (2)(a), for “the Capital Allowances Acts” substitute “the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act)”.
- 12 In subsection (3)(a), for “the Capital Allowances Acts” substitute “the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act)”.
- 13 In subsection (7), omit “and section 29 of the 1990 Act (provisions relating to furnished holiday accommodation)”.
- 14 In subsection (6), omit “and section 29 of the 1990 Act (provisions relating to furnished holiday accommodation)”.
- 15 In subsection (4), for the words from “section 28 of the 1990 Act (capital allowances for investment companies)” to the end of the subsection substitute “section 15(1) (g) of the Capital Allowances Act (plant and machinery allowances) so far as effect cannot be given to them under section 253(2) of that Act”.
- 16 (1) In subsection (2), omit paragraph (b) and the word “or” before it.  
(2) In subsection (3), omit paragraph (b) and the word “and” before it.  
(3) In subsection (4)(a) after “subsection (3) above” insert “or section 63(2) of the Capital Allowances Act”.
- 17 (1) In subsection (1)—  
(a) in paragraph (a), for “machinery or plant” substitute “plant or machinery”,  
and  
(b) omit paragraph (b) and the word “or” before it.  
(2) In subsection (2)—  
(a) for “qualifies as machinery or plant” substitute “qualifies as plant or machinery”, and  
(b) for “Part II of the 1990 Act as machinery or plant” substitute “Part 2 of the Capital Allowances Act as plant or machinery”.

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- (3) In subsection (3), omit paragraph (b) and the word “and” before it.
- (4) In subsection (4)(a), after “subsection (3) above” insert “or section 63(2) of the Capital Allowances Act”.
- 18 In subsection (7), for “Part IV of the 1990 Act in respect of expenditure falling within section 105(1)(b) of that Act (mineral depletion)” substitute “Part 5 of the Capital Allowances Act in respect of expenditure falling within section 403 (mineral asset expenditure)”.
- 19 For subsection (9) substitute—
- “*(9)* Section 532 of the Capital Allowances Act (general rule excluding contributions) shall apply for the purposes of this section as it applies for the purposes of that Act.”
- 20 In paragraph (a), for “section 121(1) of the Capital Allowances Act 1990” substitute “section 396(1) of the Capital Allowances Act”.
- 21 In subsection (4), for paragraph (b) substitute—
- “(b) any allowance to be given effect under Part 2 of the Capital Allowances Act in respect of a special leasing of plant or machinery were an allowance to be given effect in calculating the profits of that trade.”
- 22 (1) In subsection (1), omit—
- (a) “or allowed” (in each place),
- (b) “or section 141 of the 1990 Act”, and
- (c) paragraph (b) and the word “or” before it.
- (2) In subsection (2), in the definition of “the aggregate amount”, omit—
- (a) “or allowed”,
- (b) “or section 141 of the 1990 Act”, and
- (c) paragraph (b) and the word “or” before it.
- (3) In relation to any chargeable period to which this Act applies, the repeals made by sub-paragraph (2) are not to exclude from an individual’s aggregate amount for the purposes of section 117 of ICTA any amounts included in the individual’s aggregate amount at any time before the chargeable periods to which this Act applies.
- 23 (1) In subsection (1), omit—
- (a) “or allowed” (in each place),
- (b) “or section 145 of the 1990 Act”, and
- (c) paragraph (b) and the word “or” before it.
- (2) In subsection (2), in the definition of “the aggregate amount”, omit—
- (a) “or allowed”,
- (b) “or section 145 of the 1990 Act”, and
- (c) paragraph (b) and the word “or” before it.

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- (3) In relation to any chargeable period to which this Act applies, the repeals made by sub-paragraph (2) are not to exclude from a company's aggregate amount for the purposes of section 118 of ICTA any amounts included in the company's aggregate amount at any time before the chargeable periods to which this Act applies.
- 24 In subsection (5), for “which, by virtue of Part II of the Capital Allowances Act 1990 falls to be made to the employee” substitute “to which, under Part 2 of the Capital Allowances Act (plant and machinery allowances), the employee is entitled”.
- 25 In subsection (2), omit “and Part II of the 1990 Act (capital allowances in respect of machinery and plant)”.
- 26 In subsection (2), for “the Capital Allowances Acts” substitute “the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act)”.
- 27 (1) In subsection (1)—
- (a) for “section 44 of the 1968 Act” substitute “section 264 of the Capital Allowances Act”,
  - (b) for “any year of assessment in respect of machinery or plant” substitute “any period of account in respect of plant or machinery”,
  - (c) for “the basis period (as defined in section 72 of that Act) for that year” substitute “that period of account”,
  - (d) for “that machinery or plant” substitute “that plant or machinery”, and
  - (e) for “the year of assessment” substitute “the period of account”.
- (2) In subsection (3)—
- (a) in paragraph (a), for “Part II of the 1990 Act” substitute “Part 2 of the Capital Allowances Act” and for “machinery or plant” substitute “plant or machinery”, and
  - (b) in paragraph (b), for “machinery or plant” substitute “plant or machinery”.
- 28 In subsection (2)(a), for “the 1990 Act” substitute “the Capital Allowances Act”.
- 29 (1) In subsection (6), for “under Chapter I of Part III of the Finance Act 1971 in respect of expenditure incurred on the provision of machinery or plant” substitute “under Part 2 of the Capital Allowances Act in respect of expenditure incurred on the provision of plant or machinery”.
- (2) In subsection (10), omit the words following paragraph (b) and after that subsection insert—
- “(11) Expressions used in subsections (6) to (8) and in Part 2 of the Capital Allowances Act have same meaning in those subsections as in that Part; and those subsections are without prejudice to section 384A.”
- 30 After section 384 insert—

**“384A Restriction of set-off of allowances against general income**

- (1) Relief shall not be given to an individual under sections 380 and 381 by reference to a first-year allowance under Part 2 of the Capital Allowances Act (plant and machinery allowances) in the circumstances specified in subsection (2) or (4) below.
- (2) The circumstances are that the allowance is in respect of expenditure incurred on the provision of plant or machinery for leasing in the course of a qualifying activity and—
  - (a) at the time when the expenditure was incurred, the qualifying activity was carried on by the individual in question in partnership with a company (with or without other partners), or
  - (b) a scheme has been effected or arrangements have been made (whether before or after that time) with a view to the qualifying activity being so carried on by that individual.
- (3) For the purposes of subsection (2) above letting a ship on charter shall be regarded as leasing it if, apart from this subsection, it would not be so regarded.
- (4) The circumstances are that the allowance is made in connection with—
  - (a) a qualifying activity which at the time when the expenditure was incurred was carried on by the individual in partnership or which has subsequently been carried on by him in partnership or transferred to a person who was connected with him, or
  - (b) an asset which after that time has been transferred by the individual to a person who was connected with him or, at a price lower than its market value, to any other person,
 and the condition in subsection (5) below is met.
- (5) The condition is that a scheme has been effected or arrangements have been made (whether before or after the time referred to in subsection (4) above) such that the sole or main benefit that might be expected to accrue to the individual from the transaction under which the expenditure was incurred was the obtaining of a reduction in tax liability by means of relief under sections 380 and 381.
- (6) Where relief has been given in circumstances in which subsection (1) applies it shall be withdrawn by the making of an assessment under Case VI of Schedule D.
- (7) Section 839 (how to tell whether persons are connected) applies for the purposes of subsection (4) above.
- (8) Expressions used in this section and in Part 2 of the Capital Allowances Act have the same meaning as in that Part.”

31 In subsection (2)—

- (a) for “Part IV of the 1990 Act” substitute “Part 5 of the Capital Allowances Act”,
- (b) for “section 17(1) of the 1990 Act” substitute “section 355 of that Act”, and

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- (c) for “section 17(1)” (in both places) substitute “section 355”.
- 32 (1) In subsection (2C)(b), for “section 62A of the 1990 Act (demolition costs relating to offshore machinery or plant)” substitute “section 164 of the Capital Allowances Act (abandonment expenditure incurred before cessation of ring fence trade)”.
- (2) Omit subsections (5) and (6).
- (3) In subsection (11)—
- (a) in paragraph (a), for “section 62B of the 1990 Act (post-cessation abandonment expenditure related to offshore machinery or plant)” substitute “section 165 of the Capital Allowances Act (abandonment expenditure within 3 years of ceasing ring fence trade)”, and
- (b) in paragraph (b), for “section 109 of that Act (restoration expenditure incurred after cessation of trade of mineral extraction)” substitute “section 416 of that Act (expenditure on restoration within 3 years of ceasing to trade)” and for “the last day on which it carried on the trade” substitute “the last day of trading”.
- (4) In subsection (12), for “section 62A of the 1990 Act” substitute “section 162 of the Capital Allowances Act”.
- 33 In subsection (1)—
- (a) in paragraph (a), for “machinery or plant” substitute “plant or machinery”, and
- (b) in paragraph (c), for “within the meaning of Part II of the 1990 Act” substitute “within the meaning of Part 2 of the Capital Allowances Act”.
- 34 (1) In subsection (5)—
- (a) omit the definition of “basis year”, and
- (b) in the definition of “chargeable period” omit the words from “or any basis period” to the end of the definition.
- (2) Omit subsection (6).
- (3) In subsection (7), for the words from “but so that” to the end of the subsection substitute “but disregarding—
- (a) any allowance or charge under the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act); and
- (b) any provision of that Act requiring allowances and charges to be treated as expenses and receipts of the trade”.
- 35 (1) In subsection (2)(c), for “section 145(2) of the 1990 Act” substitute “section 260(2) of the Capital Allowances Act”.
- (2) In subsection (4), for “section 145(3) of the 1990 Act” substitute “section 260(3) of the Capital Allowances Act”.
- (3) In subsection (6), for “section 153 of the 1990 Act” substitute “section 532 or 536 of the Capital Allowances Act”.

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- 36 In subsection (1), for the words from “the surrender period” to the end of the subsection substitute “for the surrender period to the extent that they are to be given effect under section 260 of the Capital Allowances Act (special leasing: excess allowance).”
- 37 (1) In subsection (1)(b), for “section 145(3) of the 1990 Act” substitute “section 260(3) of the Capital Allowances Act”.
- (2) In subsection (2)(b), for “section 145(3) of the 1990 Act” substitute “section 260(3) of the Capital Allowances Act”.
- 38 In subsection (10)—
- (a) omit “Without prejudice to the provisions of section 161(5) of the 1990 Act”, and
- (b) for “that Act, except Parts III and VII” substitute “the Capital Allowances Act, except Parts 6 and 10”.
- 39 Omit sections 434D and 434E.
- 40 In subsection (4), for “section 306 of the 1970 Act (capital allowances)” substitute “Part 2 of the Capital Allowances Act (plant and machinery allowances)”.
- 41 (1) In subsection (5), for “section 141 of the 1990 Act” substitute “section 258 of the Capital Allowances Act”.
- (2) In subsection (6), for “section 145 of the 1990 Act” substitute “section 259 or 260 of the Capital Allowances Act”.
- (3) In subsection (7), for “section 145(1) of the 1990 Act” substitute “section 259 of the Capital Allowances Act”.
- 42 (1) In subsection (1), for “Part I, II or VII of the 1990 Act (capital allowances relating to industrial buildings, machinery or plant and research and development)” substitute “Part 2, 3 or 6 of the Capital Allowances Act (capital allowances relating to plant and machinery, industrial buildings or research and development)”.
- (2) In subsection (3), for “Part I, II or VII of the 1990 Act” substitute “Part 2, 3 or 6 of the Capital Allowances Act”.
- (3) In subsection (7), in the definition of “regional development grant” for the words from “means” to the end substitute “means a grant falling within section 534(1) of the Capital Allowances Act”.
- 43 In subsection (4), for “the provisions of the Capital Allowances Acts” substitute “the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act)”.
- 44 Omit sections 520 to 523.

- 45 In subsection (3), for “section 152 of the 1990 Act (succession to trades)” substitute “section 559 of the Capital Allowances Act (effect of successions)”.
- 46 (1) Omit subsection (1).
- (2) In subsections (2) and (3), for “section 520, 522, 523 or 526 as those provisions apply” (in each place) substitute “section 526 as that provision applies”.
- (3) After subsection (3) insert—
- “(3A) In this section references to a person’s or a company’s income from patents are references to that income after any allowance has been deducted from or set off against it under section 479 or 480 of the Capital Allowances Act.”
- (4) Omit subsection (4).
- 47 Omit section 530.
- 48 (1) In subsection (1), for “as disposal value under section 530(5)” substitute “as a disposal value under section 462 of the Capital Allowances Act”.
- (2) In subsection (3), omit the words following paragraph (b).
- (3) In subsection (4), for “as disposal value under section 530(5)” substitute “as a disposal value under section 462 of the Capital Allowances Act”.
- (4) In subsection (7), omit “and section 530(1) and (6)”.
- 49 For section 532 substitute—
- “532 Application of Capital Allowances Act**
- The Tax Acts have effect as if sections 524 to 529 and 531, this section and section 533 were contained in the Capital Allowances Act.”
- 50 (1) In each of subsections (1) to (5), for “sections 520 to 532” substitute “sections 524 to 529”.
- (2) In subsection (1)—
- (a) in paragraph (b) of the definition of “income from patents”, omit “520(6), 523(3),” and after “525” insert “or section 472(5) of, or paragraph 100 of Schedule 3 to, the Capital Allowances Act”, and
- (b) omit the definition of “the commencement of the patent”.
- (3) In subsection (7), for “sections 530 and 531” substitute “section 531”.
- 51 (1) In subsection (1)—
- (a) at the end of paragraph (a) insert “and”, and
- (b) omit paragraph (c) and the word “and” before it.
- (2) In subsection (7)(a), omit “, or to the use of an asset for,” (in both places).

- (3) In subsection (10), omit “, or any claim for capital allowances in respect of the use of an asset for,”.

52 After section 578 insert—

**“578A Expenditure on car hire**

- (1) This section provides for a reduction in the amounts—
- (a) allowable as deductions in computing profits chargeable to tax under Case I or II of Schedule D,
  - (b) which can be included as expenses of management of an investment company (as defined by section 130), or
  - (c) allowable as deductions from emoluments chargeable to tax under Schedule E,

for expenditure on the hiring of a car to which this section applies.

- (2) This section applies to the hiring of a car—
- (a) which is not a qualifying hire car, and
  - (b) the retail price of which when new exceeds £12,000.

“Car” and “qualifying hire car” are defined by section 578B.

- (3) The amount which would, apart from this section, be allowable or capable of being included must be reduced by multiplying it by the fraction—

$$(S - P) \times \frac{1}{R}$$

where P is the retail price of the car when new.

- (4) If an amount has been reduced under subsection (3) and subsequently—
- (a) there is a rebate (however described) of the rentals, or
  - (b) there occurs in connection with the rentals a transaction that falls within section 94 (debts deducted and subsequently released),
- the amount otherwise taxable in respect of the rebate or transaction must be reduced by multiplying it by the fraction in subsection (3) above.

**578B Expenditure on car hire: supplementary**

- (1) In section 578A “car” means a mechanically propelled road vehicle other than one—
- (a) of a construction primarily suited for the conveyance of goods or burden of any description, or
  - (b) of a type not commonly used as a private vehicle and unsuitable for such use.

References to a car accordingly include a motor cycle.

- (2) For the purposes of section 578A, a car is a qualifying hire car if—
- (a) it is hired under a hire-purchase agreement (within the meaning of section 784(6)) under which there is an option to purchase



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- exercisable on the payment of a sum equal to not more than 1 per cent. of the retail price of the car when new, or
- (b) it is a qualifying hire car for the purposes of Part 2 of the Capital Allowances Act (under section 82 of that Act).
- (3) In section 578A and this section “new” means unused and not second-hand.
- (4) The power under section 74(4) of the Capital Allowances Act to increase or further increase the sums of money specified in Chapter 8 of Part 2 of that Act includes the power to increase or further increase the sum of money specified in section 578A(2)(b) or (3).”
- 53 In subsection (5), for “any of the Capital Allowances Acts” substitute “the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act)”.
- 54 In subsection (3), for “the 1990 Act (including enactments which under this Act are to be treated as contained in the 1990 Act)” substitute “the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act)”.
- 55 In subsection (6), for “section 161(6) of the 1990 Act” substitute “section 577(3) of the Capital Allowances Act”.
- 56 In subsection (8), for “section 28 of the 1990 Act” substitute “section 253 of the Capital Allowances Act”.
- 57 In subsection (9), for “section 60(2) of the 1990 Act” substitute “section 68 of the Capital Allowances Act”.
- 58 In subsection (4), for “section 22(6)(d) or 36(4)(d) of the 1990 Act” substitute “section 82(4)(d) of the Capital Allowances Act”.
- 59 Section 831(3) continues to have effect with the addition of the definition of “the 1990 Act” (an amendment originally made by paragraph 8(35) of Schedule 1 to the Capital Allowances Act 1990 (c. 1)).
- 60 In subsection (1)—
- (a) in the definition of “capital allowance”, for “the Capital Allowances Acts” substitute “the Capital Allowances Act (including enactments which under this Act are to be treated as contained in that Act)”, and
- (b) for the definition of “the Capital Allowances Acts” substitute—
- ““the Capital Allowances Act” means the Capital Allowances Act 2001;”.
- 61 In subsection (2), omit “and also for sections 144 and 145 of the 1990 Act”.

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- 62 In subsection (8), for paragraph (c) substitute—  
“(c) any allowance given effect under section 258 or 479 of the Capital Allowances Act;”.
- 63 In paragraph 1(6)—  
(a) in paragraph (b)(i) and (ii), for “Part II of the 1990 Act” substitute “Part 2 of the Capital Allowances Act” and for “machinery or plant” substitute “plant or machinery”, and  
(b) in paragraph (b)(iii), for “section 137 of the 1990 Act” substitute “Chapter 3 of Part 6 of the Capital Allowances Act” and for “Part VII” substitute “Part 6”.
- 64 (1) Omit paragraph 9C (application of section 434D(4) in relation to overseas life insurance company).  
(2) In paragraph 10B(2A) (modification of section 440 in relation to overseas life insurance company), in the inserted subsection (4AA), for “Section 81 of the 1990 Act (as it has effect by virtue of section 83(2A) of that Act)” substitute “Section 13 of the Capital Allowances Act (use for qualifying activity of plant or machinery provided for other purposes)”.
- 65 In paragraph 6(1)(a), for “Part I or II of the 1990 Act in taxing the trade” substitute “Part 2 or 3 of the Capital Allowances Act in calculating the profits of a trade”.
- 66 (1) In paragraph 10(1)—  
(a) for “machinery or plant for the purposes of its trade, that machinery or plant shall be assumed, for the purposes of Part II of the 1990 Act” substitute “plant or machinery for the purposes of its trade, that plant or machinery shall be assumed, for the purposes of Part 2 of the Capital Allowances Act”, and  
(b) for “section 81 of that Act (expenditure treated as equivalent to market value at the time the machinery or plant is brought into use)” substitute “section 13 of that Act (use for qualifying activity of plant or machinery provided for other purposes)”.
- (2) In paragraph 10(2), for “Part II of the 1990 Act” substitute “Part 2 of the Capital Allowances Act”.
- (3) In paragraph 11A—  
(a) at the end of the heading insert “and expenditure on car hire”, and  
(b) in sub-paragraph (4) for “section 34, 35 or 96 of the 1990 Act” substitute “section 578A or 578B or section 74(2), 75(1), 76(2), (3) or (4) or 511(3) of the Capital Allowances Act”.
- 67 (1) In paragraph 6(d), for “section 28 of the 1990 Act” substitute “section 253 of the Capital Allowances Act”.  
(2) In paragraph 13(1)(e), for “section 28 of the 1990 Act” substitute “section 253 of the Capital Allowances Act”.
- 68 In paragraph 13(a), for “the 1990 Act” substitute “the Capital Allowances Act”.