SCHEDULES

SCHEDULE 21

FIRST-YEAR ALLOWANCES FOR EXPENDITURE WHOLLY FOR A RING FENCE TRADE

PART 2

MINERAL EXTRACTION ALLOWANCES

Introductory

8 Part 5 of the Capital Allowances Act 2001 (c. 2) (mineral extraction allowances) is amended as follows.

First-year qualifying expenditure

9 After section 416, insert the following Chapter—

"CHAPTER 5A

FIRST-YEAR QUALIFYING EXPENDITURE

General

416A First-year allowances available for certain types of qualifying expenditure

A first-year allowance is not available unless the qualifying expenditure is first-year qualifying expenditure under section 416B (expenditure incurred wholly for purposes of a ring fence trade).

Types of expenditure which may qualify for first year allowances

416B Expenditure incurred by company for purposes of a ring fence trade

(1) Expenditure is first-year qualifying expenditure if—

(a) it is incurred on or after 17th April 2002,

(b) it is incurred by a company,

(c) it is incurred wholly for the purposes of a ring fence trade, and

(d) it is not excluded by—

(i) subsection (2) (acquisition of mineral asset), or

(ii) subsection (3) (acquisition of asset representing expenditure of connected company).

(2) Expenditure is not first-year qualifying expenditure under this section if it is expenditure on acquiring a mineral asset.

(3) Expenditure is not first-year qualifying expenditure under this section if it is expenditure incurred by a company on the acquisition of an asset representing expenditure incurred by a company connected with that company.

(4) To the extent that references in this section to an asset representing expenditure incurred by a company include a reference to an asset representing expenditure on mineral exploration and access, they also include a reference to any results obtained from any search, exploration or inquiry on which any such expenditure was incurred.

(5) In this section "ring fence trade" means a ring fence trade in respect of which tax is chargeable under section 501A of the Taxes Act 1988 (supplementary charge in respect of ring fence trades).

Supplementary

416C Time when expenditure is incurred

(1) In determining whether expenditure is first-year qualifying expenditure under this Chapter, any effect of the provisions specified in subsection (2) on the time at which the expenditure is to be treated as incurred is to be disregarded.

(2) The provisions are—

(a) section 400(4) (which treats certain pre-trading expenditure as incurred on the first day of trading), and

(b) section 434 (which treats certain other expenditure incurred for the purposes of a trade about to be carried on as incurred on that day).".

First-year allowances

10 At the beginning of Chapter 6 (allowances and charges) insert—

"First-year allowances

First-year allowances

416D (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—

TABLE

AMOUNT OF FIRST-YEAR ALLOWANCES

Type of first-year qualifying expenditure	*Amount*
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

11 After section 416D insert—

"**416E Artificially inflated claims for first-year allowances**

(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.".

Amount of allowances and charges: balancing charge for period in which expenditure incurred

12 (1) Section 418 is amended as follows.

(2) In subsection (4) (amount of balancing charge) after paragraph (b) insert the following as a second sentence—

"Where a person is liable to a balancing charge in respect of first-year qualifying expenditure for the chargeable period in which he incurred the expenditure, any first-year allowance made in respect of the expenditure shall be treated for the purposes of paragraph (b) as if it were an allowance for an earlier chargeable period.”.

Unrelieved qualifying expenditure: effect of first-year qualifying expenditure

13 (1) Section 419 is amended as follows.

(2) In subsection (1) (amount of qualifying expenditure which is unrelieved qualifying expenditure for the chargeable period in which the expenditure is incurred) for “the whole of it" substitute—

“(a) the whole of it, unless the expenditure is first-year qualifying expenditure, or

(b) if the expenditure is first-year qualifying expenditure, none of it,

but paragraph (b) is subject to subsections (3) to (5). ”.

(3) After subsection (2) insert—

“(3) If, in the case of expenditure which is first-year qualifying expenditure, a disposal receipt falls to be brought into account for the chargeable period in which the expenditure is incurred (“the initial period”), subsection (4) below applies.

(4) Where this subsection applies, the unrelieved balance of the expenditure shall be taken to be unrelieved qualifying expenditure for the initial period, but only for the purpose specified in subsection (5).

(5) The purpose is that of determining in accordance with sections 417 and 418—

(a) any question whether the person who incurred the expenditure—

(i) is entitled to a balancing allowance for the initial period, or

(ii) is liable to a balancing charge for that period, and

(b) if so, the amount of that balancing allowance or balancing charge.

(6) In this section “the unrelieved balance of the expenditure” means so much of the first-year qualifying expenditure in question as remains after deducting the amount of any first-year allowance given in respect of the whole or any part of that expenditure.”.