



Capital Allowances Act 2001

2001 CHAPTER 2

PART 1

INTRODUCTION

CHAPTER 1

CAPITAL ALLOWANCES: GENERAL

1 Capital allowances

- (1) This Act provides for allowances in respect of capital expenditure (and for charges in connection with those allowances).
- (2) The allowances for which this Act provides are those under—
 - (a) Part 2 (plant and machinery allowances);
 - [^{F1}(aa) Part 2A (structures and buildings allowances);]
 - ^{F2}(b)
 - [^{F3}(ba) Part 3A (business premises renovation allowances)]
 - ^{F4}(c)
 - ^{F5}(ca)
 - (d) Part 5 (mineral extraction allowances);
 - (e) Part 6 (research and development allowances);
 - (f) Part 7 (know-how allowances);
 - (g) Part 8 (patent allowances);
 - (h) Part 9 (dredging allowances);
 - (i) Part 10 (assured tenancy allowances).
- (3) This Act also provides for allowances in respect of contributions to expenditure incurred on plant or machinery^{F6}... for the purposes of a mineral extraction trade or on dredging (see Part 11).

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 1. (See end of Document for details)

- F7(4)
- F7(5)

Textual Amendments

- F1** S. 1(2)(aa) inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\)](#), regs. 1, **3(2)**
- F2** S. 1(2)(b) omitted (with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **Sch. 27 para. 2(a)**
- F3** S. 1(2)(ba) inserted (with effect in accordance with s. 92 of the amending Act) by [Finance Act 2005 \(c. 7\)](#), **Sch. 6 para. 2**; S.I. 2007/949, art. 2
- F4** S. 1(2)(c) omitted (with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **Sch. 27 para. 2(a)**
- F5** S. 1(2)(ca) omitted (with effect in accordance with Sch. 39 para. 40 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), **Sch. 39 para. 38(2)** (with [Sch. 39 paras. 41, 42](#))
- F6** Words in s. 1(3) omitted (with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **Sch. 27 para. 2(b)**
- F7** S. 1(4)(5) omitted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 2 para. 49**

[F8]1A Capital allowances and charges: cash basis

- (1) This section applies in relation to a chargeable period for which the profits of a trade, profession, vocation or property business (“the relevant activity”) carried on by a person are calculated on the cash basis.
- (2) The person is not entitled to any allowance or liable to any charge under this Act except as provided by subsections (4) and (7).
- (3) No disposal value is to be brought into account except as provided by subsections (5) and (8).
- (4) If, apart from subsection (2), the person would be entitled to an allowance in respect of expenditure incurred on the provision of a car or liable to a charge in connection with such an allowance, the person is so entitled or (as the case may be) so liable.
- (5) If, apart from subsection (3), a disposal value would be brought into account in respect of a car, the disposal value is brought into account in respect of the car.
- (6) Subsections (7) and (8) apply if—
 - (a) a person carrying on a relevant activity incurs qualifying expenditure relating to an asset at a time when the profits of that activity are not calculated on the cash basis,
 - (b) after incurring the expenditure, the person enters the cash basis for a tax year, and
 - (c) no deduction would be allowed in respect of the expenditure in calculating the profits of the relevant activity on the cash basis for that tax year, on the assumption that the expenditure was paid in that tax year.
- (7) If, apart from subsection (2), the person would be liable to a charge in connection with allowances in respect of the qualifying expenditure mentioned in subsection (6), the person is so liable.

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- (8) If, apart from subsection (3), a disposal value would be brought into account in respect of the asset mentioned in subsection (6), the disposal value is brought into account in respect of the asset.
- (9) For the purposes of this section a person carrying on a trade, profession or vocation “enters the cash basis” for a tax year if—
- (a) an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect in relation to the trade, profession or vocation for the tax year, and
 - (b) no such election has effect in relation to the trade, profession or vocation for the previous tax year.
- (10) For the purposes of this section a person carrying on a property business “enters the cash basis” for a tax year if the profits of the business are calculated—
- (a) on the cash basis for the tax year (see section 271D of ITTOIA 2005), and
 - (b) in accordance with GAAP (see section 271B of that Act) for the previous tax year.
- (11) In this section—
- (a) references to calculating the profits of a trade, profession or vocation on the cash basis are to calculating the profits of a trade, profession or vocation in relation to which an election under section 25A of ITTOIA 2005 has effect, and
 - (b) references to calculating the profits of a property business on the cash basis are to be construed in accordance with section 271D of that Act (calculation of profits of property businesses on the cash basis).
- (12) In this section—
- “car” has the same meaning as in Part 2 (see section 268A);
 - “disposal value” means—
 - (a) a disposal value for the purposes of Part 2, 4A, 5, 6, 7, 8 or 10, or
 - (b) proceeds from a balancing event for the purposes of Part 3 or 3A;
 - “qualifying expenditure” means qualifying expenditure within the meaning of any Part of this Act.]

Textual Amendments

- F8** S. 1A inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 50](#)

2 General means of giving effect to capital allowances

- (1) Allowances and charges are to be given effect—
- (a) for income tax purposes, in calculating income for a chargeable period, and
 - (b) for corporation tax purposes, in calculating profits for a chargeable period.
- (2) For the meaning of “chargeable period”, see section 6.
- (3) Subsection (1) needs to be read with the following provisions about giving effect to allowances and charges—
- sections 247 to [F9]262] (plant and machinery allowances);
 - [F10]sections 270HA to 270HI (structures and buildings allowances);]

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F11
 [F12sections 360Z and 360Z1 (business premises renovation allowances)]
 F13
 F14
 section 432 (mineral extraction allowances);
 section 450 (research and development allowances);
 section 463 (know-how allowances);
 sections 478 to 480 (patent allowances);
 section 489 (dredging allowances);
 section 529 (assured tenancy allowances).

(4) In subsection (1)(b) “profits” has the same meaning as in [F15Part 2 of CTA 2009 (see section 2(2) of that Act)].

Textual Amendments

- F9** Word in s. 2(3) substituted (with effect in accordance with s. 33(5) of the amending Act) by [Finance Act 2019 \(c. 1\), s. 33\(2\)\(b\)\(i\)](#)
- F10** Words in s. 2(3) inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\), regs. 1, 3\(3\)](#)
- F11** Words in s. 2(3) omitted (with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 27 para. 3\(a\)](#)
- F12** Words in s. 2(3) inserted (with effect in accordance with s. 92 of the amending Act) by [Finance Act 2005 \(c. 7\), Sch. 6 para. 3; S.I. 2007/949, art. 2](#)
- F13** Words in s. 2(3) omitted (with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 27 para. 3\(b\)](#)
- F14** S. 2(3) entry omitted (with effect in accordance with Sch. 39 para. 40 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\), Sch. 39 para. 38\(3\)](#) (with [Sch. 39 paras. 41, 42](#))
- F15** Words in s. 2(4) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 475](#) (with [Sch. 2 Pts. 1, 2](#))

3 Claims for capital allowances

- (1) No allowance is to be made under this Act^{F16} ... unless a claim for it is made.
- (2) The claim must be included in a tax return.

[F17(2ZZA) Any claim for a first-year allowance under section 450 (expenditure on plant and machinery for use in [F18special tax sites]) must include, or be accompanied by, such information as Her Majesty's Revenue and Customs may require.]

[F19(2ZA) Any claim for an allowance under Part 2A (structures and buildings allowances) [F20—
 (a)] must be separately identified as such in the return[F21, and
 (b) where it relates to [F22special tax site qualifying expenditure] (as defined in section 270BNA), must include, or be accompanied by, such information as Her Majesty's Revenue and Customs may require.]]

[F23(2A) Any claim for an allowance under Part 3A (business premises renovation allowances) must be separately identified as such in the return.]

F24(2B)

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- (3) In this Act “tax return” means—
- (a) for income tax purposes, a return required to be made under TMA 1970, and
 - (b) for corporation tax purposes, a company tax return required to be made under Schedule 18 to FA 1998 (company tax returns, assessments and related matters).
- (4) Subsection (2) does not apply for income tax purposes to a claim for an allowance under—
- (a) section 258 (claim for allowance in respect of special leasing of plant or machinery),
 - ^{F25}(b)
 - (c) section 479 (claim for patent allowance in respect of non-trading expenditure), which is instead subject to section 42 of TMA 1970 (procedure for making claims and claims not included in returns).
- (5) Subsection (2) does not apply for corporation tax purposes to a claim for an allowance under—
- (a) section 260(3)(b) (claim to carry back allowance in respect of special leasing of plant or machinery), or
 - ^{F26}(b)
- which is instead subject to paragraphs 54 to 60 of Schedule 18 to FA 1998 (general provisions as to claims).
- (6) This section is subject to section 42(6) and (7) of TMA 1970 (special provisions relating to partnerships).

Textual Amendments

- F16** Words in s. 3(1) omitted (with effect in accordance with s. 33(5) of the amending Act) by virtue of [Finance Act 2019 \(c. 1\), s. 33\(2\)\(b\)\(ii\)\(a\)](#)
- F17** S. 3(2ZZA) inserted (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 22 para. 15\(2\)](#)
- F18** Words in s. 3(2ZZA) substituted (11.7.2023) by [Finance \(No. 2\) Act 2023 \(c. 30\), Sch. 23 para. 10\(a\)](#)
- F19** S. 3(2ZA) inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\), regs. 1, 3\(4\)](#)
- F20** Words in s. 3(2ZA) renumbered as s. 3(2ZA)(a) (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 22 para. 15\(3\)\(a\)](#)
- F21** S. 3(2ZA)(b) and word inserted (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 22 para. 15\(3\)\(b\)](#)
- F22** Words in s. 3(2ZA)(b) substituted (11.7.2023) by [Finance \(No. 2\) Act 2023 \(c. 30\), Sch. 23 para. 10\(b\)](#)
- F23** S. 3(2A) inserted (with effect in accordance with s. 92 of the amending Act) by [Finance Act 2005 \(c. 7\), Sch. 6 para. 4; S.I. 2007/949, art. 2](#)
- F24** S. 3(2B) omitted (with effect in accordance with s. 33(5) of the amending Act) by virtue of [Finance Act 2019 \(c. 1\), s. 33\(2\)\(b\)\(ii\)\(b\)](#)
- F25** S. 3(4)(b) omitted (with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 27 para. 4](#)
- F26** S. 3(5)(b) omitted (with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 27 para. 4](#)

Modifications etc. (not altering text)

- C1** S. 3(1) excluded (19.7.2006) by [Finance Act 2006 \(c. 25\), s. 120\(7\)](#)

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 1. (See end of Document for details)

- C2** S. 3(1) excluded by SI 2006/964 reg. 69Z1(8) (as inserted (6.4.2008) by [The Authorised Investment Funds \(Tax\) \(Amendment\) Regulations 2008 \(S.I. 2008/705\)](#), regs. 1, 5)
- C3** S. 3(1) excluded (1.4.2010) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), **ss. 599(8)**, 1184(1) (with Sch. 2)

4 Capital expenditure

- (1) In this Act “capital expenditure” and “capital sums” are used in the sense given in this section.
- (2) “Capital expenditure” and “capital sums” do not include, in relation to a person incurring the expenditure or paying the sums—
- (a) any expenditure or sum that may be deducted in calculating the profits or gains of a trade, profession or vocation or property business carried on by the person, ^{F27}...
 - ^{F28}(aa) any cash basis expenditure, other than expenditure incurred on the provision of a car, or]
 - ^{F29}(b) any expenditure or sum that may be allowed as a deduction under a relevant provision from the taxable earnings from an employment or office held by the person.]
- ^{F30}(2ZA) In subsection (2)(aa)—
- “cash basis expenditure” means any expenditure incurred—
- (a) in the case of a trade, profession or vocation, at a time when an election under section 25A of ITTOIA 2005 has effect in relation to the trade, profession or vocation, or
 - (b) in the case of a property business, in a tax year for which the profits of the business are calculated on the cash basis (see section 271D of that Act); and
- “car” has the same meaning as in Part 2 (see section 268A).]
- ^{F31}(2A) In subsection (2)—
- “relevant provision” means any of the following—
- (a) section 262;
 - (b) section 232 of ITEPA 2003 (giving effect to mileage allowance relief);
 - (c) Chapters 2 to 6 of Part 5 of that Act (general deductions allowed from earnings); and
- ^{F32}(d) sections 188 to 194 of FA 2004 (contributions under registered pension schemes), and]
- “taxable earnings” has the meaning given by section 10 of ITEPA 2003.]
- (3) “Capital expenditure” and “capital sums” do not include, in relation to a recipient of the expenditure or sums—
- (a) any amounts that are to be added in calculating the profits or gains of a trade, profession or vocation or property business carried on by the recipient, or
 - (b) any amounts that are [^{F33}earnings] of an employment or office held by the recipient.
- (4) “Capital expenditure” and “capital sums” do not include, in relation to—
- (a) a person incurring the expenditure or paying the sums, or

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 1. (See end of Document for details)

(b) a recipient of the expenditure or sums,
any expenditure or sum in the case of which a deduction of income tax falls or may fall to be made under [^{F34}Chapter 6 of Part 15 of ITA 2007 (deduction from annual payments or patent royalties) or under section 906 of that Act (certain royalties etc where usual place of abode of owner is abroad)].

^{F35}(5)

Textual Amendments

- F27** Word in s. 4(2)(a) omitted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 51\(2\)\(a\)](#)
- F28** S. 4(2)(aa) inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 51\(2\)\(b\)](#)
- F29** S. 4(2)(b) substituted (with effect in accordance with s. 723(1)(a)(b) of the amending Act) by [Income Tax \(Earnings and Pensions\) Act 2003 \(c. 1\)](#), s. 723, [Sch. 6 para. 247\(2\)](#) (with Sch. 7)
- F30** S. 4(2ZA) inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 51\(3\)](#)
- F31** S. 4(2A) inserted (with effect in accordance with s. 723(1)(a)(b) of the amending Act) by [Income Tax \(Earnings and Pensions\) Act 2003 \(c. 1\)](#), s. 723, [Sch. 6 para. 247\(3\)](#) (with Sch. 7)
- F32** Words in s. 4(2A) substituted (6.4.2006) by [Finance Act 2004 \(c. 12\)](#), s. 284(1), [Sch. 35 para. 48](#) (with Sch. 36)
- F33** Word in s. 4(3) substituted (with effect in accordance with s. 723(1)(a)(b) of the amending Act) by [Income Tax \(Earnings and Pensions\) Act 2003 \(c. 1\)](#), s. 723, [Sch. 6 para. 247\(4\)](#) (with Sch. 7)
- F34** Words in s. 4(4) substituted (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), s. 1034(1), [Sch. 1 para. 397\(2\)](#) (with Sch. 2)
- F35** S. 4(5) repealed (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), s. 1034(1), [Sch. 1 para. 397\(3\)](#), [Sch. 3 Pt. 1](#) (with Sch. 2)

Modifications etc. (not altering text)

- C4** S. 4 applied (with effect in accordance with s. 883(1) of the amending Act) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), [ss. 608](#), (with Sch. 2)
- C5** S. 4 applied by 1988 c. 1, s. 349ZA(5) (as inserted (with effect in accordance with s. 883(1) of the amending Act) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), [Sch. 1 para. 149](#) (with Sch. 2))
- C6** S. 4 applied (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), [ss. 910\(5\)](#), 1034(1) (with Sch. 2)
- C7** S. 4 applied (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), [ss. 931](#), 1329(1) (with Sch. 2 Pts. 1, 2)

5 When capital expenditure is incurred

- (1) For the purposes of this Act, the general rule is that an amount of capital expenditure is to be treated as incurred as soon as there is an unconditional obligation to pay it.
- (2) The general rule applies even if the whole or a part of the expenditure is not required to be paid until a later date.
- (3) There are the following exceptions to the general rule.
- (4) If under an agreement—
 - (a) the capital expenditure is expenditure on the provision of an asset,

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- (b) an unconditional obligation to pay an amount of the expenditure comes into being as a result of the giving of a certificate or any other event,
- (c) the giving of the certificate, or other event, occurs within the period of one month after the end of a chargeable period, and
- (d) at or before the end of that chargeable period, the asset has become the property of, or is otherwise under the agreement attributed to, the person subject to the unconditional obligation to pay,

the expenditure is to be treated as incurred immediately before the end of that chargeable period.

- (5) If under an agreement an amount of capital expenditure is not required to be paid until a date more than 4 months after the unconditional obligation to pay has come into being, the amount is to be treated as incurred on that date.

- (6) If under an agreement—

- (a) there is an unconditional obligation to pay an amount of capital expenditure on a date earlier than accords with normal commercial usage, and
- (b) the sole or main benefit which might have been expected to be obtained thereby is that the amount would be treated, under the general rule, as incurred in an earlier chargeable period,

the amount is to be treated as incurred on the date on or before which it is required to be paid.

- (7) This section—

- (a) is subject to any provision of this Act which has the effect that expenditure is to be treated as incurred on a date later than would result from the application of this section, and
- (b) does not apply to expenditure treated as incurred as a result of a person incurring an additional VAT liability.

Modifications etc. (not altering text)

- C8** S. 5 applied by [Corporation Tax Act 2010 \(c. 4\)](#), [s. 356JA](#) (as inserted (with effect in accordance with Sch. 15 paras. 6(1), 9(2) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 15 para. 3](#))
- C9** S. 5 applied by [Corporation Tax Act 2010 \(c. 4\)](#), [s. 356JN\(1\)](#) (as inserted (26.3.2015) by [Finance Act 2015 \(c. 11\)](#), [Sch. 13 para. 2](#))
- C10** S. 5 applied by [Corporation Tax Act 2010 \(c. 4\)](#), [s. 332K\(1\)](#) (as inserted (with effect in accordance with Sch. 12 paras. 5, 7, 8 of the amending Act) by [Finance Act 2015 \(c. 11\)](#), [Sch. 12 para. 2](#))
- C11** S. 5 excluded (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [s. 9\(7\)\(a\)](#)
- C12** S. 5 applied (14.7.2022) by [Energy \(Oil and Gas\) Profits Levy Act 2022 \(c. 40\)](#), [s. 7\(1\)\(a\)](#) (with ss. 15(1), 16(1))
- C13** S. 5 applied (14.7.2022) by [Energy \(Oil and Gas\) Profits Levy Act 2022 \(c. 40\)](#), [s. 17\(2\)](#) (with ss. 15(1), 16(1), 17)
- C14** S. 5(1)-(5) applied (with modifications) by 1998 c. 48, s. 42(8B) (as inserted (2.12.2004 retrospective) by [Finance Act 2005 \(c. 7\)](#), [Sch. 3 para. 9\(4\)\(5\)](#) (with Sch. 3 para. 9(6)(8)(9)))

6 Meaning of “chargeable period”

- (1) In this Act “chargeable period” means—

- (a) for income tax purposes, a period of account, or
- (b) for corporation tax purposes, an accounting period of a company.

Changes to legislation: There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 1. (See end of Document for details)

- (2) “Period of account” means—
- (a) in the case of a person entitled to an allowance or liable to a charge in calculating the profits of his trade, profession or vocation, a period for which accounts are drawn up for the purposes of the trade, profession or vocation, and
 - (b) in the case of any other person entitled to an allowance or liable to a charge, a tax year.
- (3) Subsection (2)(a) is subject to subsections (4) to (6).
- (4) If—
- (a) two periods of account overlap, or
 - (b) one period of account includes another,
- the period common to both is to be treated as part of the first period of account only.
- (5) If there is a gap between two periods of account, the gap is to be treated as part of the first period of account.
- (6) If a period of account would (apart from this subsection) be longer than 18 months, that period must be treated as divided into separate periods of account—
- (a) the first beginning with the start date of the original period, and
 - (b) each subsequent one beginning with an anniversary of that date,
- so as to ensure that none of the periods of account is longer than 12 months.

Changes to legislation:

There are currently no known outstanding effects for the Capital Allowances Act 2001, Chapter 1.