



Capital Allowances Act 2001

2001 CHAPTER 2

PART 2

PLANT AND MACHINERY ALLOWANCES

CHAPTER 19

GIVING EFFECT TO ALLOWANCES AND CHARGES

Trades

247 Trades

If the qualifying activity of a person who is entitled or liable to an allowance or charge for a chargeable period is a trade, the allowance or charge is to be given effect in calculating the profits of that person's trade, by treating—

- (a) the allowance as an expense of the trade, and
- (b) the charge as a receipt of the trade.

Property businesses

248 Ordinary Schedule A businesses

If the qualifying activity of a person who is entitled or liable to an allowance or charge for a chargeable period is an ordinary Schedule A business, the allowance or charge is to be given effect in calculating the profits of that business, by treating—

- (a) the allowance as an expense of that business, and
- (b) the charge as a receipt of that business.

Status: This is the original version (as it was originally enacted).

249 Furnished holiday lettings businesses

- (1) If the qualifying activity of a person who is entitled or liable to an allowance or charge for a chargeable period is a furnished holiday lettings business, the allowance or charge is to be given effect in calculating the profits of that business, by treating—
 - (a) the allowance as an expense of that business, and
 - (b) the charge as a receipt of that business.
- (2) Section 503 of ICTA (letting of furnished holiday accommodation treated as trade for purposes of loss relief rules, etc.) applies to profits calculated in accordance with subsection (1).

250 Overseas property businesses

- If the qualifying activity of a person who is entitled or liable to an allowance or charge for a chargeable period is an overseas property business, the allowance or charge is to be given effect in calculating the profits of that business, by treating—
- (a) the allowance as an expense of that business, and
 - (b) the charge as a receipt of that business.

Activities analogous to trades

251 Professions and vocations

- If the qualifying activity of a person who is entitled or liable to an allowance or charge for a chargeable period is carrying on a profession or vocation, the allowance or charge is to be given effect in calculating the profits or gains of that person's profession or vocation, by treating—
- (a) the allowance as an expense of the profession or vocation, and
 - (b) the charge as a receipt of the profession or vocation.

252 Mines, transport undertakings etc.

- If the qualifying activity of a person who is entitled or liable to an allowance or charge for a chargeable period is a concern listed in section 55(2) of ICTA (mines, transport undertakings etc.) the allowance or charge is to be given effect in calculating the profits of the concern under Case I of Schedule D, by treating—
- (a) the allowance as an expense of the concern, and
 - (b) the charge as a receipt of the concern.

Investment companies

253 Investment companies

- (1) This section applies if the qualifying activity of a person entitled to an allowance or liable to a charge for a chargeable period is the management of an investment company.
- (2) The allowance is, as far as possible, to be given effect by deducting the amount of the allowance from any income for the period of the business; and section 75(4) of ICTA (addition of allowances to company's expenses of management) applies only in so far as it cannot be given effect in this way.

- (3) The charge is to be given effect by treating the amount of the charge as income of the business.
- (4) Except as provided by subsections (2) and (3), the Corporation Tax Acts apply in relation to the allowance or charge as if they were required to be given effect in calculating the profits of that person's trade for the purposes of Case I of Schedule D.
- (5) Corresponding allowances or charges in the case of the same plant or machinery are not to be made under this Part both under this section and in another way.
- (6) Expenditure to which this section applies is not to be taken into account otherwise than under this Part or as provided by section 75(4) of ICTA.
- (7) This section is subject to sections 768B(8) and 768C(11) of ICTA.

Life assurance business

254 Introductory

- (1) Sections 255 and 256 apply if a company which is carrying on any life assurance business is entitled or liable to any allowances or charges for a chargeable period in respect of plant or machinery consisting of a management asset.
- (2) In this Chapter “management asset” has the same meaning as in Chapter 1 of Part 12 (life assurance business).

255 Apportionment of allowances and charges

- (1) Except where subsection (3) applies, the allowances or charges must be apportioned between the different categories of life assurance business carried on by the company, using the formula—

$$Ax \frac{B}{C}$$

where—

A is the amount of the allowance or charge,

B is the mean of the opening and closing liabilities of the category of life assurance concerned, and

C is the mean of the opening and closing liabilities of all the categories of life assurance business carried on by the company.

- (2) In its application to an overseas life insurance company, subsection (1) has effect as if the references to liabilities were only to such liabilities as are attributable to the branch or agency in the United Kingdom through which the company carries on the business concerned.
- (3) If—
 - (a) the company is charged to tax under section 441 of ICTA in respect of its overseas life assurance business, and
 - (b) the management asset in respect of which it is entitled to an allowance or liable to a charge for a chargeable period is provided outside the United Kingdom for use for the management of that business,

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the allowance or charge must be allocated (without any apportionment) to that business.

256 Different giving effect rules for different categories of business

- (1) Subsection (2) applies if a company—
 - (a) carries on basic life assurance and general annuity business, and
 - (b) does not fall to be charged to tax in accordance with the provisions applicable to Case I of Schedule D in respect of the profits of that business.
- (2) If this subsection applies—
 - (a) any allowances (or parts of allowances) to which the company is entitled in respect of the basic life assurance and general annuity business are to be given effect by treating them as additional expenses of management within section 76 of ICTA, and
 - (b) any charges (or parts of charges) to which the company is liable in respect of that business are to be given effect by treating the amount of the charges (or parts of charges) as income under Case VI of Schedule D for the chargeable period in question.
- (3) Subsection (4) applies if, for a chargeable period, a company is charged to tax under—
 - (a) section 436 of ICTA (pension business and ISA business),
 - (b) section 439B of ICTA (life reinsurance business), or
 - (c) section 441 of ICTA (overseas life assurance business).
- (4) If this subsection applies, then, for the purpose of calculating the profit under Case VI of Schedule D for the chargeable period in question—
 - (a) any allowances (or parts of allowances) to which the company is entitled in respect of any particular category of business are to be given effect by treating them as an expense of that category of business, and
 - (b) any charges (or parts of charges) to which the company is liable in respect of any particular category of business are to be given effect by treating them as receipts of that category of business.

257 Supplementary

- (1) Allowances and charges to which sections 255 and 256 apply are not to be given effect otherwise than in accordance with those sections.
- (2) Subsection (1) does not prevent any allowance which is to be given effect under those sections from being taken into account in any calculation for the purposes of—
 - (a) section 89 of FA 1989 (calculation of “policy holders' share of profits”), or
 - (b) section 76(2) of ICTA (calculation for purposes of complying with restriction on amount of deductible management expenses).
- (3) Expressions that are used—
 - (a) in sections 255 and 256, and
 - (b) in Chapter I of Part XII of ICTA (insurance companies and capital redemption business),have the same meaning in those sections as in that Chapter.

Special leasing of plant or machinery

258 Special leasing: income tax

- (1) This section applies for income tax purposes if the qualifying activity of a person entitled or liable to an allowance or charge for a chargeable period (“the current tax year”) is special leasing of plant or machinery.
- (2) Subject to subsection (3), the allowance is to be given effect by deducting it from the person’s income for the current tax year from any qualifying activity the person has of special leasing of plant or machinery.
- (3) If the plant or machinery leased under the special leasing was not used for the whole or any part of the current tax year for the purposes of a qualifying activity carried on by the lessee—
 - (a) the allowance, or
 - (b) a proportionate part of it,is to be given effect by deducting the allowance, or the part of the allowance, from the person’s income for the current tax year from that special leasing only.
- (4) Any charge is to be given effect by treating the charge as income to be taxed under Case VI of Schedule D.
- (5) If the amount to be deducted from a description of income specified in subsection (2) or (3) exceeds the person’s income of that description for the current tax year, the excess must be deducted from the person’s income of the same description for the next tax year, and so on for subsequent tax years.
- (6) For the purposes of this section, income from special leasing of plant or machinery includes any charge treated as income under subsection (4).
- (7) In this section, references to deducting an allowance (or a part of an allowance) from income include setting it off against income.

259 Special leasing: corporation tax (general)

- (1) This section applies for corporation tax purposes if the qualifying activity of a company entitled or liable to an allowance or charge for a chargeable period (“the current accounting period”) is special leasing of plant or machinery.
- (2) Subject to subsection (3), the allowance is to be given effect by deducting it from the company’s income for the current accounting period from any qualifying activity it has of special leasing of plant or machinery.
- (3) If the plant or machinery leased under the special leasing was not used for the whole or any part of the current accounting period for the purposes of a qualifying activity carried on by the lessee—
 - (a) the allowance, or
 - (b) a proportionate part of it,is to be given effect by deducting the allowance, or the part of the allowance, from the company’s income for the current accounting period from that special leasing only.
- (4) Any charge is to be given effect by treating the charge as income from special leasing of plant or machinery.

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260 Special leasing: corporation tax (excess allowance)

- (1) This section applies if the amount to be deducted from a description of income specified in section 259(2) or (3) exceeds the company's income of that description for the current accounting period.
- (2) Subject to subsections (3) to (6), the excess must (if the company remains within the charge to tax) be deducted from the company's income of the same description for the next accounting period (and so on for subsequent accounting periods).
- (3) The company may, on making a claim, require the excess to be deducted from any profits—
 - (a) of the current accounting period, and
 - (b) if the company was then within the charge to tax, of any previous accounting period ending within the carry-back period.
- (4) The carry-back period is a period which—
 - (a) is of the same length as the current accounting period, and
 - (b) ends at the start of the current accounting period.
- (5) If the preceding accounting period began before the start of the carry-back period, the total amount of deductions that may be made from the profits of the preceding accounting period under—
 - (a) subsection (3), and
 - (b) any corresponding provision of the Corporation Tax Acts relating to losses, must not exceed a part of those profits proportionate to the part of the period falling within the carry-back period.
- (6) A claim under subsection (3) must be made no later than 2 years after the end of the current accounting period.
- (7) If the deduction of the allowance (or of part of it) was subject to the restriction in section 259(3)—
 - (a) subsections (3) to (6), and
 - (b) section 403 of ICTA (group relief),do not apply in relation to the allowance (or part of it).
- (8) In this section "profits" has the same meaning as in section 6 of ICTA (charge to corporation tax etc.).

261 Special leasing: life assurance business

In the case of a company which is carrying on any life assurance business—

- (a) subsections (3) to (6) of section 260, and
 - (b) section 403 of ICTA (group relief),
- do not apply in relation to an allowance to which the company is entitled under section 19 (special leasing of plant or machinery).

Employments and offices

262 Employments and offices

If the qualifying activity of a person who is entitled or liable to an allowance or charge for a chargeable period is an employment or office, the allowance or charge is to be given effect, by treating—

- (a) the allowance as an amount to be deducted from the emoluments of the employment or office, and
- (b) the charge as an emolument of the employment or office.