



# Capital Allowances Act 2001

## 2001 CHAPTER 2

### PART 6

#### RESEARCH AND DEVELOPMENT ALLOWANCES

#### CHAPTER 1

##### INTRODUCTION

#### **437 Research and development allowances**

- (1) Allowances are available under this Part if a person incurs qualifying expenditure on research and development.
- (2) In this Part “research and development”—
  - (a) has the meaning given by section 837A of ICTA (activities falling to be treated as research and development under normal accounting practice, subject to regulations), and
  - (b) includes oil and gas exploration and appraisal.

#### **438 Expenditure on research and development**

- (1) Expenditure on research and development includes all expenditure incurred for—
  - (a) carrying out research and development, or
  - (b) providing facilities for carrying out research and development.
- (2) But it does not include expenditure incurred in the acquisition of—
  - (a) rights in research and development, or
  - (b) rights arising out of research and development.
- (3) Nor does it include expenditure on the provision of a dwelling.
- (4) But if—

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- (a) part of a building consists of a dwelling and the rest of the building is used for research and development, and
- (b) no more than 25% of the capital expenditure referable to the construction or acquisition of the whole building is referable to the construction or acquisition of the dwelling,

the whole of the building is to be treated as used for research and development.

- (5) For the purposes of subsection (4)(b), the expenditure referable to the construction or acquisition of the building is to be apportioned in a just and reasonable manner.
- (6) Any additional VAT liability or rebate (as to which see Chapter 4) is to be disregarded in applying subsection (4)(b).

## CHAPTER 2

### QUALIFYING EXPENDITURE

#### **439 Qualifying expenditure**

- (1) In this Part “qualifying expenditure” means capital expenditure incurred by a person on research and development directly undertaken by him or on his behalf if—
  - (a) he is carrying on a trade when the expenditure is incurred and the research and development relates to that trade, or
  - (b) after incurring the expenditure he sets up and commences a trade connected with the research and development.
- (2) The same expenditure may not be taken into account as qualifying expenditure in relation to more than one trade.
- (3) The trade by reference to which expenditure is qualifying expenditure is referred to in this Part as “the relevant trade” in relation to that expenditure.
- (4) If capital expenditure is partly within subsection (1) and partly not, the expenditure is to be apportioned in a just and reasonable manner.
- (5) References in this Chapter to research and development related to a trade include—
  - (a) research and development which may lead to or facilitate an extension of that trade, and
  - (b) research and development of a medical nature which has a special relation to the welfare of workers employed in that trade.

#### **440 Excluded expenditure: land**

- (1) Expenditure on the acquisition of land, or rights in or over land, is not qualifying expenditure.
- (2) But that does not prevent such expenditure from being qualifying expenditure so far as it is referable to the acquisition of—
  - (a) a building or structure already constructed on the land,
  - (b) rights in or over such a building or structure, or
  - (c) plant or machinery which forms part of such a building or structure.

- (3) For the purposes of subsection (2), the expenditure is to be apportioned in a just and reasonable manner.

## 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.
- (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

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- (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—  
 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.
- (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.

### **CHAPTER 4**

#### **ADDITIONAL VAT LIABILITIES AND REBATES**

#### **446 Introduction**

For the purposes of this Chapter—

- (a) “additional VAT liability” and “additional VAT rebate” have the meaning given by section 547,
- (b) the time when—
  - (i) a person incurs an additional VAT liability, or
  - (ii) an additional VAT rebate is made to a person,is given by section 548, and
- (c) the chargeable period in which, and the time when, an additional VAT liability or an additional VAT rebate accrues are given by section 549.

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**447 Additional VAT liability treated as additional expenditure etc.**

- (1) If a person—
  - (a) has incurred qualifying expenditure (“the original expenditure”), and
  - (b) incurs an additional VAT liability in respect of that expenditure,
 the liability is to be treated as capital expenditure incurred on the same research and development as the original expenditure.
- (2) But subsection (1) does not apply if by the time the liability is incurred—
  - (a) the person who incurred the original expenditure has ceased to own the asset representing that expenditure, or
  - (b) that asset has been demolished or destroyed.
- (3) Any allowance arising as a result of this section is available for—
  - (a) the chargeable period in which the liability accrues, or
  - (b) if the liability accrued before the chargeable period in which the relevant trade is set up and commenced, that chargeable period,
 rather than for the relevant chargeable period specified in section 441(2).

**448 Additional VAT rebate generates disposal value**

- (1) This section applies if—
  - (a) a person has incurred qualifying expenditure, and
  - (b) an additional VAT rebate is made to the person in respect of that expenditure.
- (2) But this section does not apply if by the time the rebate is made—
  - (a) the person has ceased to own the asset representing that expenditure, or
  - (b) that asset has been demolished or destroyed.
- (3) And this section does not apply if the rebate falls to be brought into account for the purpose of making allowances and charges under Part 2 or 3 (plant and machinery allowances and industrial buildings allowances).
- (4) The person must bring the amount of the rebate into account—
  - (a) as a disposal value in respect of the qualifying expenditure for the appropriate chargeable period, or
  - (b) if the person would have to bring a disposal value into account under section 443(1) in respect of that expenditure for that chargeable period, as an addition to that disposal value.
- (5) “Appropriate chargeable period” means—
  - (a) the chargeable period in which the rebate accrues, or
  - (b) if the rebate accrued before the chargeable period in which the relevant trade is set up and commenced, that chargeable period.

**449 Effect on balancing charges of additional VAT rebates in earlier chargeable periods**

- (1) Section 442 (balancing charges) has effect subject to this section if—
  - (a) an allowance is made to a person for a chargeable period (“the original period”) in respect of qualifying expenditure,

- (b) the person is required to bring a disposal value into account for a later chargeable period in respect of that expenditure, and
  - (c) the person has been required by section 448(4)(a) to bring one or more disposal values (“VAT disposal values”) into account in respect of that expenditure for one or more chargeable periods after the original period but before the later chargeable period.
- (2) In relation to the later chargeable period, subsection (3)(a) of section 442 applies as if the unclaimed allowance were reduced by—

$$DV - BC$$

where—

DV is the total amount of the VAT disposal values, and

BC is the total amount of any balancing charges to which the person is liable under that section as a result of bringing into account the VAT disposal values.

- (3) In relation to the later chargeable period, subsection (3)(b) of section 442 applies as if the allowance made in respect of the qualifying expenditure were reduced by BC.

## CHAPTER 5

### SUPPLEMENTARY PROVISIONS

#### **450 Giving effect to allowances and charges**

An allowance or charge to which a person is entitled or liable under this Part for a chargeable period is to be given effect in calculating the profits of the relevant trade, by treating—

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

#### **451 Sales: time of cessation of ownership**

Any reference in this Part to the time when a person ceases to own an asset is to be read, in the case of a sale, as a reference to whichever is the earlier of—

- (a) the time of completion, and
- (b) the time when possession is given.