



Taxation of Chargeable Gains Act 1992

1992 CHAPTER 12

PART II

GENERAL PROVISIONS RELATING TO COMPUTATION OF GAINS AND ACQUISITIONS AND DISPOSALS OF ASSETS

CHAPTER III

COMPUTATION OF GAINS: GENERAL PROVISIONS

Allowable deductions

37 Consideration chargeable to tax on income.

- (1) There shall be excluded from the consideration for a disposal of assets taken into account in the computation of the gain any money or money's worth charged to income tax as income of, or taken into account as a receipt in computing income or profits or gains or losses of, the person making the disposal for the purposes of the Income Tax Acts.
- [^{F1}(1A) There is to be excluded from the consideration for a disposal of an asset taken into account in the computation of the gain a sum equal to any amount that is taken into account by the person making the disposal as a receipt under section 96A or 307E of ITTOIA 2005 (capital receipts under, or after leaving, cash basis) as a result of the operation of any deemed disposal provision in relation to the asset.
- (1B) But subsection (1A) applies only to the extent that the sum has not been excluded from the consideration for an earlier disposal of the asset.
- (1C) The following are "deemed disposal provisions"—
- (a) in relation to trades, professions and vocations, subsections (4) and (5) of section 96A of ITTOIA 2005 (which provide for circumstances in which a

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person is to be regarded as disposing of an asset for the purposes of that section), and

- (b) in relation to property businesses, section 307F of ITTOIA 2005 (which provides for circumstances in which a person is to be regarded as disposing of an asset for the purposes of section 307E of that Act).]

(2) Subsection (1) above shall not be taken as excluding from the consideration so taken into account any money or money's worth which is—

- [^{F2}(a) taken into account in the making of a balancing charge under the Capital Allowances Act but excluding Part 10 of that Act,
 (b) brought into account as the disposal value of plant or machinery under Part 2 of that Act, or
 (c) brought into account as the disposal value of an asset representing qualifying expenditure under Part 6 of that Act.]

[^{F3}See also section 37A(4) and (5) (consideration on disposal of certain leases).]

[^{F4}(2A) Subsection (1) is not to be taken as excluding from the consideration so taken into account any money or money's worth which is, or is taken into account in computing, a return on which income tax is charged under Chapter 2A of Part 4 of ITTOIA 2005 (disguised interest) (but see section 381D of that Act).]

(3) This section shall not preclude the taking into account in a computation of the gain, as consideration for the disposal of an asset, of the capitalised value of a rentcharge (as in a case where a rentcharge is exchanged for some other asset) or of the capitalised value of a ground annual or feu duty, or of a right of any other description to income or to payments in the nature of income over a period, or to a series of payments in the nature of income.

^{F5}(4)

[^{F6}(5) If—

- (a) because section [^{F7}517G(4) or (6) of ITA 2007 (transactions in land: the chargeable person) applies, an amount is charged to income tax as income of] a person other than the person (“A”) by whom the gain was realised, and
 (b) the income tax has been paid,

for the purposes of this section the amount charged to that tax is regarded as having been charged as the income of A.

[If—

^{F8}(5A) (a) because section [^{F9}356OG(4) or (6) of CTA 2010 (transactions in land: the chargeable company) applies, an amount is charged to corporation tax as profits of a person other than] the person (“C”) by whom the gain was realised, and

- (b) the corporation tax has been paid,

for the purposes of this section the amount charged to that tax is regarded as having been charged as the income of C.]

(6) If—

- (a) because section 777(5) of that Act applies, the person charged to tax under Chapter 4 of Part 13 of that Act (sales of occupation income) is a person other than the person (“B”)—

- (i) for whom the capital amount was obtained, or

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- (ii) in the case of income treated as arising under section 779 of that Act, by whom the property or right was sold or realised, and
- (b) the income tax has been paid,
- for the purposes of this section the amount charged to that tax is regarded as having been charged as the income of B.
- (7) In subsection (6) “capital amount” has the same meaning as in Chapter 4 of Part 13 of that Act (sales of occupation income) (see section 777(7) of that Act).]

Textual Amendments

- F1** S. 37(1A)-(1C) 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. 44**
- F2** S. 37(2)(a)-(c) substituted for s. 37(2)(a)(b) (22.3.2001) by [Capital Allowances Act 2001 \(c. 2\)](#), **Sch. 2 para. 77**
- F3** Words in s. 37(2) added (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 231** (with Sch. 9 paras. 1-9, 22)
- F4** S. 37(2A) inserted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 12 para. 6**
- F5** S. 37(4) repealed (with effect in accordance with art. 1(2) of the amending S.I.) by [The Finance Act 2004, Sections 38 to 40 and 45 and Schedule 6 \(Consequential Amendment of Enactments\) Order 2004 \(S.I. 2004/2310\)](#), art. 1(2), **Sch. para. 48(2)**
- F6** S. 37(5)-(7) inserted (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), s. 1034(1), **Sch. 1 para. 299** (with Sch. 2)
- F7** Words in s. 37(5)(a) substituted (with effect in accordance with s. 82 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 79(8)** (with savings in 2017 c. 32, s. 39(1)(2))
- F8** S. 37(5A) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 228** (with Sch. 2)
- F9** Words in s. 37(5A)(a) substituted (with effect in accordance with s. 81 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 77(7)** (with savings in 2017 c. 32, s. 39(1)(2))

Modifications etc. (not altering text)

- C1** S. 37 extended (27.7.1993 with effect for the year 1992-93 and subsequent years of assessment as mentioned in s. 184(3)) by [1993 c. 34](#), **ss. 176(2)(b)**, 184(3)
- C2** S. 37 excluded (19.3.1997) by [Finance Act 1997 \(c. 16\)](#), Sch. 12 para. 12(1)(2)(3)(4), 13, 14 (with Sch. 12 para. 17)
- C3** S. 37 excluded (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), **ss. 670(7)**, 1329(1) (with Sch. 2 Pts. 1, 2)
- C4** S. 37 excluded (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), **ss. 672(4)**, 1329(1) (with Sch. 2 Pts. 1, 2)
- C5** S. 37(1) restricted (16.7.1992, with effect as mentioned in s. 65(6) of the amending Act) by [1992 c. 48](#), **s. 65(2)(e)(5)**
- C6** S. 37(1) modified (22.7.2004) by [Finance Act 2004 \(c. 12\)](#), **s. 133(5)(a)**
- C7** S. 37(1) modified (with effect in accordance with art. 1(2)(3), Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), regs. 1(1), **45(2)**

[^{F10}37A Consideration on disposal of certain leases

- (1) This section applies if—

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- (a) a disposal occurs that is within section 614BP of ITA 2007 (including that section as it has effect as a result of section 614CD of that Act), and
 - (b) for the purposes of Chapter 2 or 3 of Part 11A of that Act there is any cumulative accountancy rental excess in relation to the lease for the period of account of the current lessor in which the disposal takes place.
- (2) This section also applies if—
- (a) a disposal occurs that is within section 915 of CTA 2010 (including that section as it has effect as a result of section 929 of that Act), and
 - (b) for the purposes of Chapter 2 or 3 of Part 21 of that Act there is any cumulative accountancy rental excess in relation to the lease for the period of account of the current lessor in which the disposal takes place.
- (3) In determining for the purposes of this Act the amount of any gain accruing to the person making the disposal, the consideration for the disposal is treated as reduced by setting against it that excess (but not so as to reduce the amount of that consideration below nil).
- (4) Subsection (3) only affects section 37 so far as subsection (5) provides.
- (5) Section 37 does not exclude any money or money's worth from the consideration for a disposal so far as it is represented by any such cumulative accountancy rental excess that, in accordance with subsection (3)—
- (a) falls to be set against the consideration for the disposal, or
 - (b) has fallen to be set against the consideration for a previous disposal made by the person making the disposal in question or a person connected with that person.
- (6) Subsections (7) to (9) apply if the disposal mentioned in subsection (1) or (2) is a part disposal of the asset in question.
- (7) The cumulative accountancy rental excess mentioned in subsection (3) must be apportioned between—
- (a) the property disposed of, and
 - (b) the property that remains undisposed of.
- (8) That apportionment must be made in the same proportions as those in which the sums that under section 38(1)(a) or (b) are attributable to the asset fall to be apportioned under section 42.
- (9) Only so much of the cumulative accountancy rental excess as is so apportioned to the property disposed of is set against the consideration for the part disposal in accordance with subsection (3).
- (10) If subsection (3) applies in a case where two or more disposals within subsection (1) or (2) are made at the same time, the cumulative accountancy rental excess mentioned in subsection (3) must be apportioned, subject to subsections (7) to (9), between the disposals in such proportions as are just and reasonable.
- (11) Section 614DC of ITA 2007 (connected persons) applies for the purposes of this section in its application as a result of any leasing arrangements (within the meaning of that section) as it applies for the purposes mentioned in that section.]

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Textual Amendments

F10 S. 37A inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 3 para. 7](#) (with [Sch. 9 paras. 1-9, 22](#))

[^{F11}37B Consideration on certain disposals: structures and buildings allowances

- (1) This section applies on the disposal of an asset by a person if—
 - (a) the asset is an interest in a building or structure which is “an interest in UK land” (as defined in section 1C) or an equivalent interest in land outside the United Kingdom,
 - (b) the person is, or has been, entitled to an allowance under Part 2A of CAA 2001 (“the structures and buildings allowance”) by reference to the building or structure, and
 - (c) the expenditure by reference to which the structures and buildings allowance has been made is allowable under section 38 as a deduction from the consideration in the computation of the gain on the disposal.
- (2) In determining the amount of any gain accruing to the person making the disposal (the “transferor”) the consideration for the disposal is treated as being increased by an amount equal to the amount of the structures and buildings allowance that has been made to the transferor.
- (3) If the disposal is—
 - (a) a disposal on which, by virtue of any of the no gain/no loss provisions, neither a gain nor a loss accrues to the person making the disposal,
 - (b) a disposal in respect of which section 162 (roll-over relief on transfer of business) applies for the purposes of computing the gain on the disposal, or
 - (c) a deemed disposal under section 579(4) of CTA 2010 (real estate investment trusts: cessation),

the person who acquires the asset (the “transferee”) is treated, for the purposes of determining the amount of the gain accruing on any subsequent disposal of the asset by the transferee, as if the amount of structures and buildings allowance made to the transferor (see subsection (2)) had been made to the transferee.
- (4) Subsection (2)—
 - (a) is to be applied after the other provisions of this Act which apply for the purposes of determining the amount of the consideration deemed to be given for the disposal of assets, and
 - (b) is subject to subsections (5) to (7).
- (5) If section 45(3) or 47(2) applies in relation to the disposal, subsection (2) applies in relation to the part of the consideration apportioned in the same proportion as the expenditure qualifying for capital allowances.
- (6) Subsection (7) applies in relation to the disposal if the asset mentioned in subsection (1) is—
 - (a) a leasehold interest by reference to which section 270DD of CAA 2001 (leases granted for 35 years or more) applies, and
 - (b) a wasting asset for the purposes of this Act.

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- (7) For the purposes of subsection (2), the amount of the structures and buildings allowance is to be treated as if it were an amount of expenditure attributable to the asset under section 38(1) and, accordingly, as if it had been reduced at the same rate at which that expenditure is written off in accordance with paragraph 1(3) and (4) of Schedule 8 (leases of land as wasting assets).
- (8) The reference in subsection (1)(b) to an allowance under Part 2A of CAA 2001 includes a reference to a contribution allowance made by reason of the application of sections 537 and 538A of that Act (contribution allowances: structures and buildings allowances).]

Textual Amendments

- F11** S. 37B inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\)](#), regs. 1, **4(4)**

38 Acquisition and disposal costs etc.

- (1) Except as otherwise expressly provided, the sums allowable as a deduction from the consideration in the computation of the gain accruing to a person on the disposal of an asset shall be restricted to—
- (a) the amount or value of the consideration, in money or money's worth, given by him or on his behalf wholly and exclusively for the acquisition of the asset, together with the incidental costs to him of the acquisition or, if the asset was not acquired by him, any expenditure wholly and exclusively incurred by him in providing the asset,
 - (b) the amount of any expenditure wholly and exclusively incurred on the asset by him or on his behalf for the purpose of enhancing the value of the asset, being expenditure reflected in the state or nature of the asset at the time of the disposal, and any expenditure wholly and exclusively incurred by him in establishing, preserving or defending his title to, or to a right over, the asset,
 - (c) the incidental costs to him of making the disposal.
- (2) For the purposes of this section and for the purposes of all other provisions of this Act, the incidental costs to the person making the disposal of the acquisition of the asset or of its disposal shall consist of expenditure wholly and exclusively incurred by him for the purposes of the acquisition or, as the case may be, the disposal, being fees, commission or remuneration paid for the professional services of any surveyor or valuer, or auctioneer, or accountant, or agent or legal adviser and costs of transfer or conveyance (including stamp duty [^{F12}or stamp duty land tax]) together—
- (a) in the case of the acquisition of an asset, with costs of advertising to find a seller, and
 - (b) in the case of a disposal, with costs of advertising to find a buyer and costs reasonably incurred in making any valuation or apportionment required for the purposes of the computation of the gain, including in particular expenses reasonably incurred in ascertaining market value where required by this Act.
- (3) Except as provided by section 40, no payment of interest shall be allowable under this section.

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- (4) Any provision in this Act introducing the assumption that assets are sold and immediately reacquired shall not imply that any expenditure is incurred as incidental to the sale or reacquisition.

Textual Amendments

F12 Words in s. 38(2) inserted (10.7.2003) by [Finance Act 2003 \(c. 14\)](#), [Sch. 18 para. 5](#)

Modifications etc. (not altering text)

C8 S. 38 restricted (3.5.1994) by [Finance Act 1994 \(c. 9\)](#), [s. 173\(4\)\(d\)](#) (with [s. 173\(1\)](#))

C9 S. 38(1)(a)(b) restricted (5.10.2004) by [Energy Act 2004 \(c. 20\)](#), [s. 198\(2\)](#), [Sch. 9 para. 4\(2\)](#) (with [s. 38\(2\)](#)); [S.I. 2004/2575](#), [art. 2\(1\)](#), [Sch. 1](#)

C10 S. 38(1)(c) applied by [Finance Act 1996 \(c. 8\)](#), [s. 92\(5D\)](#) (as inserted (with effect in accordance with [s. 79\(3\)](#) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), [Sch. 23 para. 5\(3\)](#))

39 Exclusion of expenditure by reference to tax on income.

- (1) There shall be excluded from the sums allowable under section 38 as a deduction in the computation of the gain any expenditure allowable as a deduction in computing the [^{F13}profits] or losses of a trade, profession or vocation for the purposes of income tax or allowable as a deduction in computing any other income or profits or gains or losses for the purposes of the Income Tax Acts and any expenditure which, although not so allowable as a deduction in computing any losses, would be so allowable but for an insufficiency of income or profits or gains; and this subsection applies irrespective of whether effect is or would be given to the deduction in computing the amount of tax chargeable or by discharge or repayment of tax or in any other way.
- (2) Without prejudice to the provisions of subsection (1) above, there shall be excluded from the sums allowable under section 38 as a deduction in the computation of the gain any expenditure which, if the assets, or all the assets to which the computation relates, were, and had at all times been, held or used as part of the fixed capital of a trade the [^{F13}profits] of which were (irrespective of whether the person making the disposal is a company or not) chargeable to income tax would be allowable as a deduction in computing the [^{F13}profits] or losses of the trade for the purposes of income tax.
- (3) No account shall be taken of any relief under Chapter II of Part IV of the ^{M1}Finance Act 1981 or under Schedule 5 to the ^{M2}Finance Act 1983, in so far as it is not withdrawn and relates to shares issued before 19th March 1986, in determining whether any sums are excluded by virtue of subsection (1) or (2) above from the sums allowable as a deduction in the computation of gains or losses for the purposes of this Act.
- [^{F14}(3A) This section is not to be taken as excluding, from the sums allowable under section 38 as a deduction in the computation of the gain, expenditure allowable as a deduction in computing a return on which income tax is charged under Chapter 2A of Part 4 of ITTOIA 2005 (disguised interest) (but see section 381D of that Act).]
- [^{F15}(3B) This section is not to be taken as excluding, from the sums allowable under section 38 as a deduction in the computation of the gain, any expenditure in respect of which an allowance under Part 2A of CAA 2001 (structures and buildings allowances) is made.]
- [^{F16}(4) If—

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- (a) because section ^{F17}517G(4) or (6) of ITA 2007 (transactions in land: the chargeable person) applies, an amount is charged to income tax as income of a person other than the person (“A”) by whom the gain was realised, and
- (b) the income tax has been paid,

for the purposes of this section the amount charged to that tax is regarded as having been charged as the income of A.]

^{F18}(5) If—

- (a) because section ^{F19}356OG(4) or (6) of CTA 2010 (transactions in land: the chargeable company) applies, an amount is charged to corporation tax as profits of a person other than] the person (“B”) by whom the gain was realised, and
- (b) the corporation tax has been paid,

for the purposes of this section the amount charged to that tax is regarded as having been charged as the income of B.]

Textual Amendments

- F13** Word in s. 39(1)(2) substituted (31.7.1998) by [Finance Act 1998 \(c. 36\), s. 46\(3\)\(a\), Sch. 7 para. 7](#)
- F14** S. 39(3A) inserted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 12 para. 7](#)
- F15** S. 39(3B) inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\), regs. 1, 4\(5\)](#)
- F16** S. 39(4) inserted (6.4.2007) by [Income Tax Act 2007 \(c. 3\), s. 1034\(1\), Sch. 1 para. 300](#) (with Sch. 2)
- F17** Words in s. 39(4)(a) substituted (with effect in accordance with s. 82 of the amending Act) by [Finance Act 2016 \(c. 24\), s. 79\(9\)](#) (with savings in 2017 c. 32, s. 39(1)(2))
- F18** S. 39(5) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 229](#) (with Sch. 2)
- F19** Words in s. 39(5)(a) substituted (with effect in accordance with s. 81 of the amending Act) by [Finance Act 2016 \(c. 24\), s. 77\(8\)](#) (with savings in 2017 c. 32, s. 39(1)(2))

Modifications etc. (not altering text)

- C11** S. 39 extended (27.7.1993 with effect for the years 1992-93 and subsequent years of assessment as mentioned in s. 184(3)) by [1993 c. 34, s. 176\(2\)\(b\), 184\(3\)](#)
- C12** S. 39 excluded (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), ss. 670\(7\), 1329\(1\)](#) (with Sch. 2 Pts. 1, 2)
- C13** S. 39 excluded (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), ss. 672\(4\), 1329\(1\)](#) (with Sch. 2 Pts. 1, 2)
- C14** S. 39 extended (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), ss. 1157\(2\), 1329\(1\)](#) (with Sch. 2 Pts. 1, 2)
- C15** S. 39(1) modified (22.7.2004) by [Finance Act 2004 \(c. 12\), s. 133\(5\)\(b\)](#)

Marginal Citations

- M1** 1981 c. 35.
- M2** 1983 c. 28.

^{F20}39A Exclusion of certain expenditure: structures and buildings allowances

- (1) This section applies if—
 - (a) a person disposes of an asset to a connected person,

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- (b) the asset is, or is an interest in, a building or structure by reference to which an allowance under Part 2A of CAA 2001 (a “structures and buildings allowance”) has been made, and
 - (c) the person making the disposal is, or has been, a lessor in relation to a lease of the building or structure by reference to which section 270DD of CAA 2001 (leases granted for 35 years or more) applies.
- (2) Any expenditure by reference to which a structures and buildings allowance has been made to a lessee in relation to the lease mentioned in subsection (1)(c) is to be excluded from the sums allowable under section 38 as a deduction in the computation of the gain.]

Textual Amendments

F20 S. 39A inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\)](#), regs. 1, **4(6)**

40 Interest charged to capital.

- (1) Where—
- (a) a company incurs expenditure on the construction of any building, structure or works, being expenditure allowable as a deduction under section 38 in computing a gain accruing to the company on the disposal of the building, structure or work, or of any asset comprising it, and
 - (b) that expenditure was defrayed out of borrowed money,
- the sums so allowable under section 38 shall, subject to subsection (2) below, include the amount of any interest on that borrowed money which is referable to a period or part of a period ending on or before the disposal.
- (2) Subsection (1) above has effect subject to section 39 and does not apply to interest which is a charge on income.
- (3) In relation to interest paid in any accounting period ending before 1st April 1981 subsection (1) above shall have effect with the substitution for all following paragraph (b) of—
- “and
- (c) the company charged to capital all or any of the interest on that borrowed money referable to a period or part of a period ending on or before the disposal,

and the sums so allowable under section 38 shall include the amount of that interest charged to capital.”;

and subsection (2) above shall not apply.

[^{F21}(4) In consequence of Chapter 2 of Part 4 of the Finance Act 1996 (c. 8) (loan relationships) [^{F22}and CTA 2009 (Part 5 of which re-enacts that Chapter)] this section does not have effect in relation to interest referable to an accounting period ending on or after 1st April 1996.]

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Textual Amendments

- F21** S. 40(4) added (24.7.2002) by [Finance Act 2002 \(c. 23\)](#), [Sch. 25 para. 60\(2\)](#)
- F22** Words in s. 40(4) inserted (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. 362](#) (with [Sch. 2 Pts. 1, 2](#))

41 Restriction of losses by reference to capital allowances and renewals allowances.

- (1) Section 39 shall not require the exclusion from the sums allowable as a deduction in the computation of the gain of any expenditure as being expenditure in respect of which a capital allowance or renewals allowance is made, but the amount of any losses accruing on the disposal of an asset shall be restricted by reference to capital allowances and renewals allowances as follows.
- (2) In the computation of the amount of a loss accruing to the person making the disposal, there shall be excluded from the sums allowable as a deduction any expenditure to the extent to which any capital allowance or renewals allowance has been or may be made in respect of it.
- (3) If the person making the disposal acquired the asset—
- [^{F23}(a) by a transfer by way of sale in relation to which an election under section 569 of the Capital Allowances Act was made, or
- (b) by a transfer to which section 268 of that Act applies,]
- (being enactments under which a transfer is treated for the purposes of capital allowances as being made at written down value), the preceding provisions of this section shall apply as if any capital allowance made to the transferor in respect of the asset had (except so far as any loss to the transferor was restricted under those provisions) been made to the person making the disposal (that is the transferee); and where the transferor acquired the asset by such a transfer, capital allowances which by virtue of this subsection can be taken into account in relation to the transferor shall also be taken into account in relation to the transferee (that is the person making the disposal), and so on for any series of transfers before the disposal.
- (4) In this section “capital allowance” means—
- [^{F24}(a) any allowance under the Capital Allowances Act,]
- [^{F25}(zaa) any deduction allowable in respect of capital expenditure in calculating profits on the cash basis (see sections 33A and 307B of ITTOIA 2005),]
- [^{F26}(aa) any deduction under section 311A of ITTOIA 2005 or section 250A of CTA 2009 (replacement domestic items relief),]
- (b) ^{F27}... [^{F28}any deduction under section 315 of ITTOIA 2005][^{F29}or section 254 of CTA 2009] (expenditure on sea walls), and
- (c) any deduction in computing [^{F30}profits] allowable under ^{F31}... [^{F32}section 170 of ITTOIA 2005][^{F33}or section 147 of CTA 2009] (cemeteries).
- [^{F34}(4A) But references in this section to a capital allowance do not include references to an allowance under Part 2A of CAA 2001 (structures and buildings allowances).]
- (5) In this section “renewals allowance” means a deduction allowable in computing the [^{F30}profits] of a trade, profession or vocation for the purpose of income tax by reference to the cost of acquiring an asset for the purposes of the trade, profession or vocation in replacement of another asset, and for the purposes of this Chapter a renewals allowance

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shall be regarded as a deduction allowable in respect of the expenditure incurred on the asset which is being replaced.

- (6) The amount of capital allowances to be taken into account under this section in relation to a disposal include any allowances falling to be made by reference to the event which is the disposal, and there shall be deducted from the amount of the allowances the amount of any balancing charge to which effect has been or is to be given by reference to the event which is the disposal, or any earlier event.

[^{F35}(6A) Where—

(a) capital allowances have been made or may be made in respect of expenditure, and

(b) the capital allowances include a deduction mentioned in subsection (4)(zaa), the capital allowances to be taken into account under this section are to be regarded as equal to the total amount of expenditure which has qualified for capital allowances less any balancing charge to which the person making the disposal is liable under the Capital Allowances Act.]

- (7) Where the disposal is of [^{F36}plant or machinery] in relation to expenditure on which allowances or charges have been made under [^{F37}Part 2 of the Capital Allowances Act, [^{F38}and subsection (6A) does not apply,] and neither Chapter 15 (assets provided or used only partly for qualifying activity) nor Chapter 16 (partial depreciation subsidies) of that Part] applies, the capital allowances to be taken into account under this section are to be regarded as equal to the difference between the [^{F39}qualifying expenditure] incurred, or treated as incurred, under that Part on the provision of the [^{F36}plant or machinery] by the person making the disposal and the disposal value required to be brought into account in respect of the [^{F36}plant or machinery].

[^{F40}(8) Where there is a disposal of an asset acquired in circumstances in which—

(a) section 140A applies, or

(b) section 171 applies or would apply but for subsection (2) of that section,

this section has effect in relation to capital allowances made to the person from which it was acquired (so far as not taken into account in relation to a disposal of the asset by that person), and so on as respects previous transfers of the asset in such circumstances.

This does not affect the consideration for which an asset is deemed under section 140A or 171 to be acquired.]

[^{F41}(9) In this section—

(a) in relation to a trade, profession or vocation, references to calculating profits on the cash basis are to [^{F42}be construed in accordance with Part 2 of ITTOIA 2005 (see [section 24A](#) of that Act)], and

(b) in relation to a property business, references to calculating profits 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).

(10) In this section—

“capital expenditure” means expenditure of a capital nature incurred on, or in connection with, the creation, construction, acquisition, alteration or disposal of an asset, and

“property business” means a UK property business or an overseas property business within the meaning of Part 3 of ITTOIA 2005 (see sections 264 and 265 of that Act).]

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Textual Amendments

- F23** S. 41(3)(a)(b) substituted (22.3.2001) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 78\(1\)](#)
- F24** S. 41(4)(a) substituted (22.3.2001) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 78\(2\)](#)
- F25** S. 41(4)(zaa) 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. 45\(2\)](#)
- F26** S. 41(4)(aa) inserted (with effect in accordance with s. 73(8)(9) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 73\(3\)](#)
- F27** Words in s. 41(4)(b) repealed (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. 363\(a\)\(i\)](#), [Sch. 3 Pt. 1](#) (with [Sch. 2 Pts. 1, 2](#))
- F28** Words in s. 41(4)(b) inserted (with effect in accordance with s. 883(1) of the amending Act) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), [s. 883\(1\)](#), [Sch. 1 para. 430\(a\)](#) (with [Sch. 2](#))
- F29** Words in s. 41(4)(b) inserted (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. 363\(a\)\(ii\)](#) (with [Sch. 2 Pts. 1, 2](#))
- F30** Word in s. 41(4)(5) substituted (31.7.1998) by [Finance Act 1998 \(c. 36\)](#), [s. 46\(3\)\(a\)](#), [Sch. 7 para. 7](#)
- F31** Words in s. 41(4)(c) repealed (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. 363\(b\)\(i\)](#), [Sch. 3 Pt. 1](#) (with [Sch. 2 Pts. 1, 2](#))
- F32** Words in s. 41(4)(c) inserted (with effect in accordance with s. 883(1) of the amending Act) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), [s. 883\(1\)](#), [Sch. 1 para. 430\(b\)](#) (with [Sch. 2](#))
- F33** Words in s. 41(4)(c) inserted (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. 363\(b\)\(ii\)](#) (with [Sch. 2 Pts. 1, 2](#))
- F34** [S. 41\(4A\)](#) inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\)](#), [regs. 1, 4\(7\)](#)
- F35** [S. 41\(6A\)](#) 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. 45\(3\)](#)
- F36** Words in s. 41(7) substituted (22.3.2001) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 78\(3\)\(a\)](#)
- F37** Words in s. 41(7) substituted (22.3.2001) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 78\(3\)\(b\)](#)
- F38** Words in s. 41(7) 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. 45\(4\)](#)
- F39** Words in s. 41(7) substituted (22.3.2001) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 78\(3\)\(c\)](#)
- F40** [S. 41\(8\)](#) added (with effect in accordance with Sch. 29 para. 12(2) of the amending Act) by [Finance Act 2000 \(c. 17\)](#), [Sch. 29 para. 12\(1\)](#) (with [Sch. 29 para. 46\(5\)](#))
- F41** [S. 41\(9\)\(10\)](#) 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. 45\(5\)](#)
- F42** Words in [s. 41\(9\)\(a\)](#) substituted (with effect for the tax year 2024-25 and subsequent tax years) by [Finance Act 2024 \(c. 3\)](#), [Sch. 10 paras. 37, 47](#) (with [Sch. 10 paras. 48-50](#))

Modifications etc. (not altering text)

- C16** [S. 41](#) modified (16.7.1992) by 1992 c. 48, [s. 77](#), [Sch. 17 paras. 6\(2\)\(5\), 7](#)
- C17** [S. 41](#) modified (19.9.1994) by [Coal industry Act 1994 \(c. 21\)](#), [s. 68\(4\)](#), [Sch. 4 para. 21\(2\)\(5\)\(6\)](#) (with [Sch. 4 para. 14](#)); [S.I. 1994/2189](#), [art. 2](#), [Sch.](#)
- C18** [S. 41\(8\)](#) modified (15.1.2001) by [Transport Act 2000 \(c. 38\)](#), [s. 275\(1\)](#), [Sch. 26 para. 10\(1\)](#) (with [Sch. 26 para. 10\(2\)](#)); [S.I. 2000/3376](#), [art. 2](#)

[^{F43} 41A Restriction of losses: long funding leases of plant or machinery

- (1) This section applies where a person disposes of an asset—
- (a) which includes plant or machinery which is a fixture for the purposes of Chapter 6A of Part 2 of the Capital Allowances Act, and
 - (b) which he has used for the purpose of leasing under one or more long funding leases.

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- (2) In the computation of the amount of a loss accruing to the person on the disposal there shall be excluded from the sums allowable as a deduction by virtue of section 38(1) (a) and (b) (acquisition and enhancement costs) an amount determined in accordance with subsection (3) or (4).
- (3) Where the person has used the plant or machinery for the purpose of leasing under one long funding lease, the amount is equal to the fall in value of the plant or machinery during the period of the lease.
- (4) Where the person has used the plant or machinery for the purpose of leasing under more than one long funding lease, the amount is equal to the sum of the fall in value of the plant or machinery during the period of each lease.
- (5) In this section, references to the fall in value of plant or machinery during the period of a lease are references to the amount (if any) by which—
 - (a) the market value of the plant or machinery at the commencement of the term of the lease, exceeds
 - (b) its market value at the termination of the lease.
- (6) For the purposes of this section, the following expressions have the meaning given in Chapter 6A of Part 2 of the Capital Allowances Act (interpretation of provisions about long funding leases)—
 - “commencement”, in relation to the term of a lease,
 - “long funding lease”,
 - “market value”,
 - “the term”, in relation to a lease,
 - “termination”.]

Textual Amendments

- F43** S. 41A inserted (with effect in accordance with Sch. 9 para. 5(2) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 9 para. 5\(1\)](#)

42 Part disposals.

- (1) Where a person disposes of an interest or right in or over an asset, and generally wherever on the disposal of an asset any description of property derived from that asset remains undisposed of, the sums which under paragraphs (a) and (b) of section 38(1) are attributable to the asset shall, both for the purposes of the computation of the gain accruing on the disposal and for the purpose of applying this Part in relation to the property which remains undisposed of, be apportioned.
- (2) The apportionment shall be made by reference—
 - (a) to the amount or value of the consideration for the disposal on the one hand (call that amount or value A), and
 - (b) to the market value of the property which remains undisposed of on the other hand (call that market value B),
 and accordingly the fraction of the said sums allowable as a deduction in the computation of the gain accruing on the disposal shall be—

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$$\frac{A}{A+B}$$

and the remainder shall be attributed to the property which remains undisposed of.

- (3) Any apportionment to be made in pursuance of this section shall be made before operating the provisions of section 41 and if, after a part disposal, there is a subsequent disposal of an asset the capital allowances or renewals allowances to be taken into account in pursuance of that section in relation to the subsequent disposal shall, subject to subsection (4) below, be those referable to the sums which under paragraphs (a) and (b) of section 38(1) are attributable to the asset whether before or after the part disposal, but those allowances shall be reduced by the amount (if any) by which the loss on the earlier disposal was restricted under the provisions of section 41.
- (4) This section shall not be taken as requiring the apportionment of any expenditure which, on the facts, is wholly attributable to what is disposed of, or wholly attributable to what remains undisposed of.
- (5) It is hereby declared that this section, and all other provisions for apportioning on a part disposal expenditure which is deductible in computing a gain, are to be operated before the operation of, and without regard to, section 58(1), sections 152 to 158 (but without prejudice to section 152(10)), section 171(1) or any other enactment making an adjustment to secure that neither a gain nor a loss occurs on a disposal.

Modifications etc. (not altering text)

- C19** S. 42(2) applied (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), **ss. 667(2), 1329(1)** (with [Sch. 2 Pts. 1, 2](#))
- C20** S. 42(2) applied (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), **ss. 668(2), 1329(1)** (with [Sch. 2 Pts. 1, 2](#))
- C21** S. 42(2) applied (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), **ss. 670(5), 1329(1)** (with [Sch. 2 Pts. 1, 2](#))

43 Assets derived from other assets.

If and so far as, in a case where assets have been merged or divided or have changed their nature or rights or interests in or over assets have been created or extinguished, the value of an asset is derived from any other asset in the same ownership, an appropriate proportion of the sums allowable as a deduction in the computation of a gain in respect of the other asset under paragraphs (a) and (b) of section 38(1) shall, both for the purpose of the computation of a gain accruing on the disposal of the first-mentioned asset and, if the other asset remains in existence, on a disposal of that other asset, be attributed to the first-mentioned asset.

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

- Act applied by [1997 c. 16 Sch. 12 para. 12\(7\)](#)[1314](#)
- Act applied by [2002 c. 23 Sch. 16 para. 48\(1\)\(2\)](#)
- Act construed as one with reg. 37 by [S.I. 2006/575 reg. 37\(2\)](#)
- Act construed as one with reg. 38 by [S.I. 2006/575 reg. 38\(3\)](#)

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 4(10)(11) inserted by [2016 c. 11 s. 15\(4\)](#)
- s. 4(10) words inserted by [2016 c. 24 s. 83\(11\)](#)
- s. 35(3)(d)(xviii) added by [2008 c. 17 Sch. 7 para. 9](#)
- s. 35(3)(d)(xviii) inserted by [2008 c. 18 Sch. 13 para. 46](#)
- s. 35(3)(d)(xviii) repealed by [S.I. 2008/3002 Sch. 1 para. 42](#)[Sch. 3](#) (This amendment comes into force on the day 2008 c. 4, s. 5 comes into force, see art. 1(2). That provision was brought into force on 1.12.2008 by [S.I. 2008/3068](#), art. 2(1)(b))
- s. 104(4)(b)(i) words substituted by [S.I. 1989/469](#), reg. 27(2) (as amended) by [S.I. 1997/1716 reg. 13\(1\)\(b\)](#)
- s. 107(11) words substituted by [S.I. 1989/469](#), reg. 27(2A) (as amended) by [S.I. 1997/1716 reg. 13\(2\)\(b\)](#)
- s. 169S(4A) inserted by [2015 c. 11 s. 43\(2\)](#)
- s. 587B inserted by [2000 c. 17 s. 43\(1\)](#)
- Sch. 5C para. 3(1) modified by [S.I. 2004/2199 reg. 7\(1\)](#)
- Sch. 5C para. 3(6) modified by [S.I. 2004/2199 reg. 7\(2\)](#)
- Sch. 5C para. 5(1) modified by [S.I. 2004/2199 reg. 7\(3\)](#)
- Sch. 5C para. 3 words inserted by [S.I. 2005/3229 reg. 128](#)
- Sch. 5C para. 5 words inserted by [S.I. 2005/3229 reg. 128](#)
- Sch. 5C para. 6 words inserted by [S.I. 2005/3229 reg. 128](#)
- Sch. 5C para. 3(1)(f) words substituted by [2007 c. 3 Sch. 1 para. 347](#)