



# Capital Allowances Act 1990

## 1990 CHAPTER 1

### PART VII

#### SCIENTIFIC RESEARCH

**136 Allowances for expenditure on scientific research not of a capital nature, and on payments to research associations, universities etc**

Notwithstanding anything in section 74 of the principal Act (general rules as to deductions not allowable in computing the profits or gains of a trade), where a person carrying on a trade—

- (a) incurs expenditure not of a capital nature on scientific research related to that trade and directly undertaken by him or on his behalf, or
- (b) pays any sum to any scientific research association for the time being approved for the purposes of this section by the Secretary of State, being an association which has as its object the undertaking of scientific research related to the class of trade to which the trade he is carrying on belongs, or
- (c) pays any sum to be used for such scientific research as is mentioned in paragraph (b) above to any such university, college research institute or other similar institution as is for the time being approved for the purposes of this section by the Secretary of State,

the expenditure incurred or sum paid, as the case may be, may be deducted as an expense in computing the profits or gains of the trade for the purposes of tax.

**137 Allowances for capital expenditure on scientific research**

- (1) Subject to the provisions of this section and section 138, where a person—
  - (a) while carrying on a trade, incurs expenditure of a capital nature on scientific research related to that trade and directly undertaken by him or on his behalf, or
  - (b) incurs expenditure of a capital nature on scientific research directly undertaken by him or on his behalf, and thereafter sets up and commences a trade connected with that research,

---

*Status: This is the original version (as it was originally enacted).*

---

a deduction equal to the whole of the expenditure shall be allowed in taxing the trade for the relevant chargeable period as defined in subsections (5) to (7) below.

- (2) No allowance shall be made under subsection (1) above in respect of expenditure on the acquisition of, or of rights in or over, any land except in so far as, on a just apportionment, that expenditure is referable to the acquisition of, or of rights in or over, or of machinery or plant which forms part of, a building or other structure already constructed on that land.
- (3) For the purposes of this section, expenditure on the provision of a dwelling is not scientific research expenditure; but where part of a building is used for scientific research and part consists of a dwelling and the capital expenditure which it is just to apportion to the construction or acquisition of the dwelling is not more than one-quarter of the capital expenditure which is referable to the construction or acquisition of the whole building, the whole of the building shall be treated for the purposes of this Part as used for scientific research.
- (4) Subject to subsections (2) and (3) above, where after 26th July 1989 a person incurs capital expenditure which is partly within subsection (1) above and partly not, such apportionment of the expenditure shall be made for the purposes of this Part as may be just.
- (5) For corporation tax purposes the relevant chargeable period shall be the accounting period in which the expenditure was incurred or, if it was incurred before the setting up and commencement of the trade, the accounting period beginning with that setting up and commencement.
- (6) For income tax purposes the relevant chargeable period shall be—
  - (a) in the case of expenditure incurred before the end of the year of assessment in which the trade was set up and commenced, that year of assessment,
  - (b) in the case of expenditure incurred after the end of that year of assessment but not later than 12 months from the setting up and commencement of the trade, the year of assessment next following that in which the trade was set up and commenced,
  - (c) in the case of expenditure incurred after 12 months from the setting up and commencement of the trade and during the basis year for any year of assessment, but subject to subsection (7) below, that year of assessment,
  - (d) in the case of expenditure incurred during the year of assessment in which the trade is permanently discontinued, that year of assessment.

In paragraph (c) above, “basis year” means, in relation to a year of assessment, the period the profits or gains of which are, under section 60 of the principal Act, to be taken to be the profits or gains of the year preceding that year of assessment.

- (7) For the purposes of subsection (6)(c) above—
  - (a) where two basis years overlap, any expenditure incurred in the period common to both shall be deemed to have been incurred in the first basis year only,
  - (b) where there is an interval between the end of the basis year for one year of assessment and the beginning of the basis year for the next year of assessment, any expenditure incurred during the interval shall be deemed to have been incurred in the second basis year, and
  - (c) any expenditure which is incurred before the end of, but after the end of the basis year for, the last complete year of assessment before the permanent

discontinuance of the trade shall be deemed to have been incurred in that basis year,

and, in paragraph (a) above, the reference to the overlapping of two basis years includes a reference to the coincidence of two basis years, or to the inclusion of one basis year in another, and the reference to the period common to both of two basis years shall be construed accordingly.

### **138 Assets ceasing to belong to traders**

- (1) Subsections (2) and (3) below shall have effect where an asset representing allowable scientific research expenditure of a capital nature incurred by the person carrying on a trade ceases to belong to him; and the occasion of that asset ceasing to belong to him is referred to below as “the relevant event”.
- (2) If the relevant event occurs in or after the chargeable period for which an allowance in respect of the expenditure is made under section 137, then, subject to subsection (6) below—
  - (a) the sum by which the aggregate of the disposal value of the asset and the amount of the allowance exceeds the amount of the expenditure, or
  - (b) the amount of the allowance if it is less than that sum,shall be treated as a trading receipt of the trade accruing at the time of the relevant event or, if the relevant event occurs on or after the date on which the trade is permanently discontinued, accruing immediately before the discontinuance.
- (3) If the relevant event occurs before the chargeable period for which an allowance in respect of the expenditure would fall to be so made, that allowance shall not be made, but, subject to subsection (6) below, if the disposal value of the asset is less than the expenditure, a deduction equal to the difference shall be allowed in taxing the trade for the chargeable period in which the relevant event occurs.
- (4) For the purposes of this section the disposal value of an asset depends upon the nature of the relevant event, and—
  - (a) if that event is the actual sale of the asset at a price not lower than that which it would have fetched in the open market, equals the proceeds of that sale;
  - (b) if that event is the deemed sale of the asset under subsection (5) below, equals the deemed proceeds of sale under that subsection; and
  - (c) in any other event, equals the price which the asset would have fetched if sold in the open market.
- (5) Where an asset is destroyed, it shall for the purposes of this section be treated as if it had been sold immediately before its destruction, and any insurance moneys or other compensation of any description received by the person carrying on the trade in respect of the destruction, and any moneys received by him for the remains of the asset, shall be treated as if they were proceeds of that sale; and where this subsection has effect on the demolition of an asset—
  - (a) the cost of demolition to the person carrying on the trade shall, for the purposes of subsections (2) and (3) above, be added to the expenditure represented by the asset, and
  - (b) if the case falls within the first of those subsections but, by reason of that addition, the aggregate there referred to is less than the amount of the expenditure represented by the asset, then, unless prior to its demolition the asset had begun to be used for purposes other than scientific research related

---

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

---

to the trade, and subject to subsection (6) below, a deduction equal to the difference shall be allowed in taxing the trade for the chargeable period in which the asset is treated as having been sold or, if it is treated as having been sold on or after the date on which the trade is permanently discontinued, for the last chargeable period in which the trade was carried on before the discontinuance.

- (6) No amount shall be allowed or charged by virtue of this section in respect of any relevant event if that event gives rise to a balancing allowance or balancing charge under Part I or Part II.
- (7) In relation to any chargeable period or its basis period ending after 26th July 1989, subsection (6) above shall have effect with the omission of the words “allowed or” and “balancing allowance or”.

### **139 Supplemental**

- (1) In this Part—
- (a) “scientific research” means any activities in the fields of natural or applied science for the extension of knowledge;
  - (b) “scientific research expenditure” means expenditure incurred on scientific research;
  - (c) references to expenditure incurred on scientific research do not include any expenditure incurred in the acquisition of rights in, or arising out of, scientific research, but, subject to that, include all expenditure incurred for the prosecution of, or the provision of facilities for the prosecution of, scientific research;
  - (d) references to scientific research related to a trade or a class of trades include—
    - (i) any scientific research which may lead to or facilitate an extension of that trade or, as the case may be, of trades of that class;
    - (ii) any scientific research of a medical nature which has a special relation to the welfare of workers employed in that trade or, as the case may be, of trades of that class; and
  - (e) “asset” includes part of an asset.
- (2) The same expenditure shall not be taken into account for any of the purposes of this Part in relation to more than one trade.
- (3) If any question arises under this Part as to whether, and if so to what extent, any activities constitute or constituted, or any asset is or was being used for, scientific research, the Board shall refer the question for decision to the Secretary of State and his decision shall be final.
- (4) Any reference in this Part to the time when an asset ceases to belong to a person shall, in the case of a sale, be construed as a reference to the time of completion or the time when possession is given, whichever is the earlier.
- This subsection shall have effect in any case where the sale is effected, or the contract for sale entered into, after 26th July 1989.
- (5) The cost to a person of the demolition of any property shall not, if section 138(5)(a) applies to it, be treated for the purposes of this Act as expenditure incurred in respect of any other property by which that property is replaced.