CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 3: Industrial buildings allowances

Chapter 5: Initial Allowances

Overview

1038. This Chapter provides initial allowances for qualifying enterprise zone expenditure on a building which is to be an industrial building occupied by the person who incurred that expenditure or by a qualifying lessee or licensee. In relation to qualifying enterprise zone expenditure "industrial building" includes "commercial buildings" as defined in section 281.

1039. Section 305 provides entitlement to allowances. It defines "qualifying lessees and licensees".

1040. Section 306 provides:

   •   the amount of the initial allowance is 100% of the qualifying enterprise zone expenditure; and

   •   the allowance is made for the chargeable period in which the qualifying expenditure is incurred.

1041. Section 307 denies or withdraws allowances if the building is not an industrial building when first used.

1042. Section 308 denies or withdraws allowances if expenditure is met by certain grants.

Section 305: Initial allowances for qualifying enterprise zone expenditure

1043. This section is based on parts of section 1(1), (3) and (4) of CAA 1990. It provides entitlement to initial allowances for qualifying enterprise zone expenditure.

1044. There is a minor change. The section makes clear that initial allowances are available in respect of all commercial buildings in enterprise zones whether or not occupied for the purposes of a trade. See *Change 35* in Annex 1.

Section 306: Amount of initial allowance and period for which allowance made

1045. This section is based on parts of sections 1(1) and 161(2) and on section 1(5) and (10) of CAA 1990. It provides that initial allowances are 100% of the qualifying enterprise zone expenditure but allows a person to claim less than the full amount.

1046. There is a minor change. *Subsection (4)* deals with the case in which expenditure is incurred for the purposes of a trade, profession or vocation which has not yet begun.

This rule is needed to identify the chargeable period under subsection (3) in respect of which the initial allowance is to be made. In CAA 1990 this applies only for trades. But the addition of professions and vocations follows logically. See *Change 36* in Annex 1.

Section 307: *Building not industrial building when it comes to be used etc.*

1047. This section is based on sections 1(6), 10(1)(a) and 10A(2)(a) of CAA 1990. It denies or withdraws initial allowances if a building is not an industrial building when first used.

1048. The need to withdraw allowances arises because section 305 gives entitlement to an initial allowance for a building which "is to be" an industrial building. This means that an initial allowance may be made on the basis of intentions that are not fulfilled.

1049. There is a minor change. *Subsection (4)* applies for both subsection (2) and (3) in this section. In CAA 1990 the equivalent (section 1(6)) applies only for cases within subsection (2) of this section. Cases within subsection (3) would be dealt with under the more general provisions in TMA 1970. See *Change 37* in Annex 1.

Section 308: *Grants affecting entitlement to initial allowances*

1050. This section is based on section 1(7), (8) and (9) of CAA 1990. It denies or withdraws initial allowances if expenditure is met by certain grants.

1051. *Subsection (6)* provides that the adjustments or assessments required under subsection (5) may be made at any time up to the end of a 3-year period following the end of the chargeable period in which the grant, payment or repayment was made. This caters for the fact that there may be considerable gaps between expenditure and grants, or between grants being made and repaid. The three years it provides to make such adjustments does not displace any other provisions which may allow an assessment or adjustment later.