These notes refer to the Corporation Tax (Northern Ireland) Act 2015 (c.21) which received Royal Assent on 26 March 2015

CORPORATION TAX (NORTHERN IRELAND) ACT 2015

EXPLANATORY NOTES

SECTION 2 AND SCHEDULE 1: CAPITAL ALLOWANCES

Part 3 of Schedule 1

114. Part 3 provides for amendments to plant and machinery allowances under Part 2 of CAA 2001 to take account of the fact that an NI rate activity is subject to a different rate of corporation tax.

115. Paragraph 3 amends section 12 of CAA 2001 to ensure that, if a company incurs expenditure for the purposes of trade for an activity that will, on the company becoming a NIRE company, be an NI rate activity treated as a separate trade, any such expenditure will be treated as incurred on the first day the company is a NIRE company.

116. Similarly, paragraph 3 amends section 12 of CAA 2001 to provide that expenditure incurred by a partnership for the purposes of an activity that will, on the partnership becoming a Northern Ireland Chapter 7 firm, be an NI rate activity treated as a separate trade, will be treated as incurred on the first day the partnership is a Northern Ireland Chapter 7 firm.

117. Paragraph 4 inserts new subsections (2ZA) and (2ZB) into section 15 of CAA 2001. These rules ensure that activities carried out by a company or firm which are treated as separate trades are also treated for the purposes of Part 2 of CAA 2001 as separate qualifying activities.

118. Paragraph 5 inserts new section 51JA which provides for a restriction to Annual Investment Allowance (AIA) available under Chapter 5 of Part 2 of CAA 2001 where the AIA qualifying expenditure is incurred in respect of an NI rate activity in a financial year for which the Northern Ireland rate is lower than the main rate.

119. Paragraph 6 contains amendments of section 61 of CAA 2001 which deals with disposal events and disposal values. Their effect is that where an asset that is used for the purpose of a main rate activity is sold at less than market value to a company that is within the NI CT regime, the sale will in certain circumstances be treated as being at market value.

120. Paragraph 7 sets out new sections 66B, 66C, 66D and 66E. New section 66B ensures that a capital allowances disposal event will not arise where, in an accounting period which starts on or after the commencement day (again, as defined by section 5 of the Act), a company becomes a Northern Ireland SME company and as a result of section 15(2ZA) (as inserted by paragraph 4) any assets are treated as ceasing to be used for the purpose of a main rate activity and beginning to be used for the purposes of an NI rate activity.

121. There are also rules in new section 66B that govern how any unrelieved qualifying expenditure brought forward to the first period where a company has both a main rate activity and an NI rate activity is treated. This includes a just and reasonable

apportionment of the unrelieved qualifying expenditure between a main rate activity pool and an NI rate activity pool.

122. New section 66C contains provision about the application to partnerships of the provisions of new section 66B.

123. New section 66D covers the situation where a company that was a Northern Ireland SME company starts to carry on a qualifying activity that is not an NI rate activity. A capital allowances disposal event will not arise in the case of any assets which are consequently treated as ceasing to be used for the purposes of an NI rate activity. Any unrelieved qualifying expenditure previously used for the purposes of an NI rate activity that is to be carried forward is treated as relating to the qualifying activity the company is carrying on.

124. New section 66E contains provision about the application to partnerships of the provisions of new section 66D.

125. Paragraph 8 inserts new Chapter 16ZA into CAA 2001.

126. New section 212ZA deals with qualifying expenditure on plant or machinery which is used partly for NI rate activity and partly for main rate activity. For the purposes of any annual investment allowance or first year allowance the expenditure is to be apportioned on a just and reasonable basis between the NI rate activity and main rate activity.

127. New section 212ZB requires that where qualifying expenditure is incurred partially for NI rate activity and partially for main rate activity (if it is to be allocated to a pool) it must be allocated to a single asset pool. Where a company is required to bring in a disposal value because an asset previously used for either NI rate activity or main rate activity begins to be used for both activities, an amount equivalent to the disposal value is allocated to a single asset pool for that chargeable period.

128. New section 212ZC deals with allowances and charges on expenditure in a single asset pool by applying a just and reasonable apportionment between the NI rate activity and the main rate activity.

129. New section 212ZD introduces rules dealing with the disposal value to be applied in the case of a significant change of circumstances affecting the use of plant or machinery in a single asset pool under section 212ZC.

130. New section 212ZE provides for the application of the new Chapter 16ZA to partnerships.

131. New section 212ZF defines the phrase “main rate activity” for the purposes of Chapter 16ZA.

132. Paragraph 9 of Schedule 1 amends section 247 of CAA 2001. The inserted subsection (1A) deals with the way in which plant and machinery allowances are given effect in the case of companies within the NI CT regime which have an NI rate activity. Allowances in respect of the NI rate activity are relieved as deductions against Northern Ireland profits of the relevant accounting period.

133. Paragraph 10 of Schedule 1 relates to first-year tax credits payable under Schedule A1 to CAA 2001. It amends Schedule A1 so as to give the Treasury power by order to prescribe a different percentage where the surrenderable loss in question relates to an NI rate activity.