

Capital allowances: contributions towards capital expenditure on plant or machinery.

Who is likely to be affected?

Businesses which have received contributions towards capital expenditure on plant or machinery, or may in the future make or receive such contributions.

General description of the measure

The measure confirms that where a business makes a contribution to capital expenditure by another business on plant or machinery, capital allowances for the amount covered by the contribution are available to the contributor and not the recipient.

Policy objective

The measure protects the Exchequer and ensures certainty about the tax treatment where one business contributes to another's capital expenditure on plant or machinery.

Background to the measure

Following new capital allowance claims made by some companies for historic expenditure met by customer contributions, the Government announced on 29 May 2013 its intention to protect the Exchequer by legislating to confirm the capital allowance rules operate as intended.

Detailed proposal

Operative date

The legislation applies to capital allowances claims by recipients made on or after 29 May 2013, and to certain expenditure pooled previously by a recipient. For a business making a contribution the legislation only applies in relation to future contributions.

Current law

Part 11 of Capital Allowances Act 2001 (CAA) provides for businesses to claim capital allowances on contributions to capital expenditure by other businesses, and prevents the recipient of the contribution from claiming allowances where the contributor can.

Proposed revisions

The legislation makes amendments to section 538 CAA to confirm that contribution allowances under Part 2 are available in relation to a contribution of a capital sum to capital expenditure on the provision of plant or machinery in the recipient's hands. In this case the contributor's capital contribution is treated as capital expenditure on the provision of plant or machinery for use in the contributor's business, and it is the contributor who can claim capital allowances, not the recipient.

In certain circumstances, if the recipient of a contribution has previously pooled expenditure which would be ineligible to be pooled under the legislation (as amended), the amount of the unrelieved portion of that expenditure is brought into account as a disposal value.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	Nil	Nil	Nil	Nil	Nil
	The legislation protects the Exchequer by confirming that the capital allowances rules operate as intended.				
Economic impact	The legislation would act to prevent potential economic distortions arising due to the significant sums that would otherwise accrue across the gas and electricity distribution sector unintentionally.				
Impact on individuals and households	The measure is not expected to have an impact on individuals and households.				
Equalities impacts	The measure is not expected to have an impact on individuals with protected characteristics.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations generally. The measure will however have some impact, in particular on a small number of large businesses in the gas and electricity distribution industries, and confirms that the capital allowances rules relating to contributions from businesses operate in the way that those businesses had previously been applying them.				
Operational impact (£m) (HMRC or other)	The measure will limit the operational impact on HM Revenue & Customs (HMRC) of compliance work needed to deal with new capital allowance claims being made by some gas and electricity distribution companies on a different basis than historically.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

The measure will be monitored in the course of monitoring the operation of the capital allowances regime as a whole.

Further advice

If you have any questions about this change, please contact HMRC's Capital Allowances policy team on 020 7147 2610 (email: caguidance.ct&vat@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Exchequer Secretary has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.