

CA20006 - PMAs: Introduction: Outline

Depreciation of fixed assets charged in the accounts is not allowed as a deduction in computing taxable profits. Capital allowances may be given instead. Plant and machinery allowances give relief at prescribed rates for the depreciation of fixed assets that are plant or machinery.

In order to qualify for PMAs, a person must:

- be carrying on a qualifying activity [CA20010](#), and
- incur qualifying expenditure. Qualifying expenditure is capital expenditure on the provision of plant or machinery [CA21000](#) wholly or partly for the purposes of the qualifying activity. Normally the person must own the asset as a result of incurring the expenditure.

The range of qualifying activities for PMA is very wide. It broadly covers all taxable activities other than passive investment, including a trade, profession, vocation, office, employment or Schedule A business.

The range of assets that qualify as plant and machinery is also very wide. Broadly it covers all fixed assets used in the business other than intangible assets apart from computer software, land and buildings. The main difficulty in determining whether an asset qualifies as plant or machinery comes with assets incorporated into buildings.

Normally, the taxpayer must also own the plant or machinery as a result of incurring the expenditure. There are exceptions to this condition, however, in particular for fixtures [CA26000](#).

There are two main types of PMA - first year allowance (FYA) and writing down allowance (WDA).

FYA is only due in certain circumstances. It is a special allowance given at a higher rate than the normal WDA for the chargeable period in which the expenditure is incurred. Any expenditure left unrelieved qualifies for WDAs for subsequent periods.

WDAs are calculated using the **pool basis**. A pool may cover a single asset or a class of assets. Pooling works by keeping a running total of the unrelieved expenditure on the assets in the pool. WDA, normally at 20%pa, is given on the current total. This is known as the reducing balance basis.

Example Bennett & Darcy Ltd. runs a transport business. It draws up accounts to 31 December each year. Its pool of expenditure at 31 December 2008 is £32,000. In the year ended 31 December 2009 it buys a lorry for £8,000 at a time when FYA is available at the 40% rate and claims FYA on it. It also sells a lorry for £4,000 in that year. This is Bennett & Darcy Ltd.'s CA computation for the year ended 31 December 2009.

Cost of lorry	£8,000
FYA @ 40 %	<u>£3,200</u>
Balance carried forward	<u>£4,800</u>
Pool brought forward	£32,000
Disposal	<u>£4,000</u>
	£28,000
WDA @ 20%	£5,600

Pool carried forward £22,400*

*The pool brought forward at 1 January 2010 is £27,200 (= £4,800 + £22,400).

There are single asset pools, class pools and the main pool, which contains all expenditure that does not go into a single asset or class pool. Expenditure on some assets is kept separate from expenditure on all other assets and does not go into the main pool. It is dealt with in single asset pools. These include assets used partly for purposes other than the qualifying activity, short life assets and cars costing more than £12,000 (but only where the expenditure was incurred before 1/6 April 2009). There are two class pools; one for special rate expenditure and one for expenditure on plant & machinery for overseas leasing. Certain expenditure must be allocated to the special rate pool and will attract WDA at 10% rather than 20%. Special rate expenditure includes expenditure on thermal insulation, integral features, long life assets and cars with CO₂ emissions exceeding 160g/km driven bought on or after 1/6 April 2009. Where a person carries on more than one qualifying activity, PMAs are calculated separately for each activity with a separate pool or pools for each of them.

CA23153 - PMA: FYA: Expenditure on cars with low carbon dioxide emissions

Businesses of all sizes can claim 100% FYAs on capital expenditure on a car provided that:

- the car is "unused and not second hand", and is first registered on or after 17 April 2002;
- it is an electric car, or
- a car with CO2 emissions of not more than 110gm per km driven.
- the expenditure is incurred between **17 April 2002 and 31 March 2013**.

The 110gm per km driven limit applies to cars bought on or after 1 April 2008. For cars bought before that date the limit was not more than 120gm per km driven.

New cars are "unused and not second hand". You should accept a car is unused and not second hand even if it has been driven a limited number of miles for the purposes of testing, delivery, test driven by a potential purchaser, or used as a demonstration car. A car's carbon dioxide emissions figure is shown on the vehicle registration document (the "V5"). Emissions figures for most makes and models can be obtained from the:

- HMRC internet site for CO2 emissions;
- Vehicle Certification Agency's website at www.vca.gov.uk

Detailed guidance on this scheme can be found under specialist publications in the Practitioner Zone on the HMRC Internet site.

The definition of a car follows the normal meaning in CAA01/S81 (applicable for expenditure before 1 or 6 April 2009) or CAA01/S268A (applicable for expenditure on or after 1 or 6 April 2009) ([CA23510](#)). Expenditure on a taxicab can also qualify for 100% FYAs if the cab meets the conditions above, even if it is not a car within the meaning of Section 81 or Section 268A.

The legislation is in FA02/S59 and FA02/Sch19 which inserts a new Section 45D into CAA01. The legislation was amended by FA2008, which extended the time when expenditure must be incurred to qualify for this 100% FYA so that it ends on 31 March 2013. FA08 also reduced the emissions limit from 120 to 110gm per km driven.

Changes to the rules for cars costing more than £12,000

The special rules for pre-April 2009 expenditure on cars that cost more than £12,000 ([CA23520](#)) do not apply to qualifying cars with low CO2 emissions. This means the annual writing-down allowances are not restricted to £3,000, and there is no restriction to the car hire or leasing expenses a business can deduct for tax purposes.

You may have a case where a car that was leased out before 1 April 2008 satisfied the emissions limit when the leasing began but does not satisfy the reduced limit that applies from 1 April 2008. The car is still exempt from the lease rental restriction until the leasing contract ends. Once that contract ends any future leases of the car will be subject to the lease rental restriction.

CA23210 - PMA: WDA & balancing adjustments: Pooling

CAA01/S53 & S54

Expenditure is pooled in order to calculate writing down allowances, balancing allowances and balancing charges. You pool expenditure by adding it together and deducting disposal values from the total. If the disposal values are more than the expenditure in the pool the difference is a **balancing charge**. There are no balancing allowances until the qualifying activity ends. When it does, the **balancing allowance** is equal to the unrelieved qualifying expenditure.

Where a person carries on more than one qualifying activity there is a pool for each qualifying activity. There is also a long life asset pool that contains all the expenditure on long life assets [CA23700](#) and an overseas leasing pool that contains all the expenditure on assets leased overseas to which the overseas leasing legislation [CA24000](#) applies.

If expenditure is allocated to a single asset pool the allowances and charges are calculated separately and there is a balancing adjustment that ends the pool when there is a disposal event [CA23240](#). No other expenditure goes into that pool.

These are the assets expenditure on which is allocated to a single asset pool:

- Cars above the cost threshold where the expenditure was incurred before 1 April 2009 (where the taxpayer is within the charge to corporation tax) or 6 April 2009 (where the taxpayer is within the charge to income tax) [CA23500](#);
- Short life assets [CA23600](#);
- Ships [CA25000](#);
- Assets used partly for other purposes [CA27000](#);
- Assets towards whose cost a partial depreciation subsidy is received [CA27100](#);

Contributions towards the cost of plant or machinery are also allocated to a single asset pool [CA14500](#).

CA23280 - PMA: WDA & Balancing adjustments: Other provisions about disposal values

CAA01/S66

There are provisions about disposal values in the legislation below:

CAA01/S68	hire purchase	CA23330
CAA01/S72 and S73	software	CA23420
CAA01/S79	Cars – expenditure before 1 April (corporation tax) or 6 April (income tax) 2009	CA23540
CAA01/S88 and S89	short life assets	CA23660
CAA01/S104	long life assets	CA23770
CAA01/S108, S111 and S114	overseas leasing	CA24200
CAA01/S132 and S143	ships	CA25250
CAA01/S171	oil production sharing contracts	CA29250
CAA01/S196 and S197	fixtures	CA26700 ; CA26750
CAA01/S208	significant reduction in use for qualifying activity	CA27300
CAA01/S208A	Cars – expenditure incurred on or after 1 or 6 April 2009	CA23555
CAA01/S211	partial depreciation subsidy	CA27500
CAA01/S222	sale and finance leaseback	CA28550
CAA01/S229	hire purchase and finance leasing	CA28700
CAA01/S238 and S239	additional VAT rebates	CA29230
CAA01/S228K to S228M	disposal of plant subject to lease	CA23290

CA23510 - PMA: Cars: Outline: Meaning of car

CAA01/S81

Where expenditure was incurred ([CA11800](#)) on a car before 1 April 2009 (by a person within the charge to corporation tax) or 6 April 2009 (by a person within the charge to income tax), and the car cost £12,000 or more, the expenditure was allocated to a single asset pool. This is because WDAs on such expenditure are usually restricted to an annual amount of £3,000 (the rules that apply to expenditure incurred before April 2009 do not apply to qualifying hire cars - [CA23515](#)) and the allowances on the car have to be calculated separately so that the restriction can be applied. Where a person makes a contribution towards the cost of a car, the £3,000 limit is divided between the person making the contribution and the recipient [CA23520](#). There is anti-avoidance legislation that stops a person creating a balancing allowance by selling a car to a connected person for a nominal amount [CA23527](#).

These rules do not apply to expenditure incurred on a car on or after 1 or 6 April 2009, instead the capital allowances treatment is determined by the car's carbon dioxide emissions ([CA23535](#)). Expenditure incurred before April 2009 will never be fully within the new rules, although transitional rules may apply ([CA23530](#)).

For PMA purposes a **car** is a mechanically propelled vehicle except a vehicle:

- a. constructed in such a way that it is primarily suited for transporting goods of any sort, or
- b. of a type which is not commonly used as a private vehicle and is not suitable for use as a private vehicle.

Treat a car that is capable of being used as a private vehicle as a car for PMA purposes no matter how the taxpayer actually uses it (*Roberts v Granada TV Rental Ltd* 46TC295).

Do not treat the following vehicles as cars for PMA purposes:

- a car that it is illegal for a taxpayer to use as a private vehicle even if the taxpayer sometimes uses it as a private vehicle (*Gurney v Richards* 62TC87);
- cars used by a driving school and fitted with dual control mechanisms (*Bourne v Auto School of Motoring (Norwich) Ltd* 42TC217);
- emergency vehicles. A vehicle equipped with a fixed blue flashing light on the roof which can only be used on the road by a fire officer or police officer is an emergency vehicle;
- Hackney carriages;
- Double cab pick-ups with a payload of one tonne or more. (Payload is the difference between a vehicle's maximum gross weight and its kerbside weight.)

Motor cycles are specifically included in the definition of a car for capital allowances purposes where the expenditure was incurred before 1 or 6 April 2009. Expenditure incurred on a motor cycle after these dates is not treated as being on the provision of a car. A motor cycle is defined (in the Road Traffic Act of

1988) as a mechanically propelled vehicle, other than an invalid carriage, with less than four wheels. The unladen weight must not be more than 410 kilograms.

Quadricycles (quadbikes) do not meet the definition of a 'motorcycle' and if they are road vehicles within the definition above then they will be treated as cars for capital allowances purposes.

A hire car for a disabled person is a car provided wholly or mainly for use by people receiving certain types of disability living allowance or mobility supplement. In more detail, the cars that are in this category are cars provided wholly or mainly for people receiving:

a disability allowance under the Social Security Contributions and Benefits Act 1992 or the Social Security Contributions and Benefits (Northern Ireland) Act 1992 because of entitlement to the mobility supplement;

a War Pensions mobility supplement under the Personal Injuries (Emergency Provisions) Act 1939;

a mobility supplement under an Order in Council made under section 12 of the Social Security (Miscellaneous Provisions) Act 1977; or

a payment that appears (to HM Treasury) to be similar to those above.

There is guidance on number plates at [CA21250](#).

Self-employed taxpayers may use mileage rates to compute their vehicle expenses, including capital allowances, if the annual turnover of the business is less than the VAT registration threshold. Further guidance can be found at [BIM47701](#). These rules are unaffected by the FA2009 changes.

CA23515 PMA: Cars: Expenditure incurred before 1 or 6 April 2009: Qualifying hire cars

CAA01/S82

The rules that apply to expenditure incurred before April 2009 ([CA 23510](#)) do not apply to qualifying hire cars. A **qualifying hire car** is a car that is provided wholly or mainly for hire to, or the carriage of, members of the public in the ordinary course of a trade, and satisfies one of these three conditions:

1. It is not normally hired to, or used for the carriage of, the same person for:
 - 30 or more consecutive days, or
 - 90 or more days in total in any 12-month period.

Treat connected persons as the same person when you apply this test.

Example A car that is hired to Johnny from 10 February to 8 March, his daughter, Roseanne, from 1 April to 27 April, Johnny from 5 May to 31 May and Roseanne again from 1 September to 25 September is not a qualifying hire car. Johnny and Roseanne are connected and between them they have had the car on hire for more than 90 days in a 12-month period.

2. It is provided for hire to a person who uses it in such a way that the conditions in 1 are satisfied. Cars that are hired to a limited range of customers, such as employees of persons connected with the owner do not satisfy this condition.
3. It is a car provided for a disabled person. A car provided for a disabled person is a car provided wholly or mainly for use by people receiving certain types of disability living allowance or a mobility supplement. In more detail, the cars that are in this category are cars provided wholly or mainly for people receiving:
 - a disability allowance under the Social Security Contributions and Benefits Act 1992 or its Northern Ireland equivalent because of entitlement to the mobility supplement;
 - a War Pensions mobility supplement; or
 - a mobility supplement.

The emissions based rules that apply in respect of expenditure incurred after April 2009, described in [CA23535](#), apply to all cars. CAA01/S82 was omitted from the legislation as a result of the amendments to the rules so the concept of qualifying hire cars ceases to be relevant for capital expenditure incurred on or after 1 or 6 April 2009.

CA23520 - PMA: Cars: Expenditure incurred before 1 or 6 April 2009: Single asset pool, restriction on WDA and contributions

CAA01/S74 - S76

If expenditure was incurred on a car before 1 April 2009 (where the person claiming the allowances is within the charge to corporation tax) or 6 April 2009 (where the claimant is within the charge to income tax) and the cost of the car exceeded £12,000, the expenditure was allocated to a single asset pool, providing the car was not a qualifying hire car [CA23515](#), or a qualifying car with low carbon dioxide emissions [CA23153](#). The WDAs are calculated in the normal way and then restricted to an annual amount of £3,000.

Example Geronimo draws up his accounts to 31 December each year. He buys a Cadillac to use in the business for £36,000 on 4 July 2002 and claims WDAs. This is the capital allowance computation for the year ended 31 December 2002.

Cost of Cadillac	£36,000
WDA restricted to £3,000	<u>£3,000</u>
Written down value carried forward	<u>£33,000</u>

If Geronimo had drawn up his accounts for the 8 months to 31 August 2002 the WDA on the Cadillac would have been £2,000 (= £3,000 x 8/12).

If a person receives a contribution towards the expenditure on a car costing more than £12,000 the person making the contribution can claim WDAs on the contribution in the normal way. However, the annual WDAs for the person making the contribution and the recipient are restricted to a total of £3,000. Effectively the £3,000 is divided between them.

Example In the example above Geronimo receives a contribution of £12,000 from Sonny. Sonny's annual WDAs are restricted to £1,000 (= £3,000 x £12,000 / £36,000) and Geronimo's are restricted to £2,000 (= [£36,000 - £12,000] / £36,000).

Expenditure on a car on or after 1 or 6 April 2009 does not have to be put into a single asset pool (unless there is an element of non-business use of the car [CA27005](#)); the rules for expenditure after these dates are described in [\(CA23535\)](#). Pre April 2009 expenditure will remain in a single asset pool for a transitional period, after which any remaining unrelieved expenditure will be transferred to the main plant & machinery pool [\(CA23530\)](#).

CA23525 - PMA: Cars: Expenditure incurred before April 2009: Used partly for a non-qualifying purpose, partial depreciation subsidy

CAA01/S77 - S78

The single asset pool does not end when a car costing more than £12,000 begins to be used partly for a non-qualifying activity. When such a car begins to be used partly for a non-qualifying activity you should calculate the WDAs in the normal way, restrict them to £3,000 and then reduce them on a just and reasonable basis. Balancing allowances and balancing charges are also reduced on a just and reasonable basis. You deduct the full WDA before the reduction when you calculate the written down value carried forward.

Example As in the example at [CA23520](#) Geronimo buys a Cadillac for £36,000. He uses it 25% for a non-qualifying activity and 75% for business purposes. The annual WDA of £3,000 is restricted to £2,250 (= 75% of £3,000).

Where there is a blatant incongruity between the type of car and the size and nature of the business, it may be possible to use the case of *G H Chambers (Northiam Farms) Ltd v Watmough* 36TC711 to restrict the allowances on the grounds of personal choice. Both writing down and balancing allowances can be restricted on personal choice grounds.

A personal choice restriction can be made as well as any other restrictions such as a private use restriction.

Example Pedro the fisherman buys a Rolls Royce for £150,000 and claims capital allowances. It is finally agreed that the business use is 15%.

The WDAs are restricted to £3,000 in the normal way. Because the business use is only 15%, the allowances are then reduced to £450, that is, 15% x £3,000 (see [CA27005](#)).

If it is decided that a personal choice restriction of 50% should be made, the allowances due will then be reduced to £225, that is, 50% x £450.

When you decide whether a personal choice restriction should be made, you should take into account the size and type of the car, the nature of the business and the extent of business use. They should also consider how the cost of the car compares with the business turnover and profits.

If the business use of the car is substantial, no restriction should be made on the grounds of personal choice.

If the person who buys a car costing more than £12,000 receives a partial depreciation subsidy, that is a payment to cover part of the depreciation of the car, the £3,000 restriction should be applied in the normal way. The restricted WDA should then be reduced on a just and reasonable basis provided that the subsidy is not taxable as an income receipt. The full WDA, that is the WDA before the just and reasonable reduction, should be deducted when you calculate the written down value carried forward.

CA23527 - PMA: Cars: Expenditure incurred before 1 or 6 April 2009: Anti-avoidance

CAA01/S79

A person could create a balancing allowance to get round the £3,000 limit on WDA by selling the car to a connected person for a nominal amount. There is legislation that prevents this. It applies where a person sells a car, sells a car on hire purchase or assigns a hire purchase contract to buy a car and the transaction is a connected person transaction, a sale and leaseback or a transaction to obtain allowances [CA28300](#).

Where the legislation applies the disposal value is the lower of the market value of the car and its cost to the person selling it. The person who acquires the car is treated as incurring capital expenditure on its provision equal to the seller's disposal value.

Example Bruce buys a car for £150,000 and claims PMAs. Two years later, when the market value of the car is £125,000, he sells it to Steve for £25,000. Bruce's disposal value is £125,000 and that is the amount that Steve can claim PMAs on. If the market value of the car when it was sold had been £160,000, the disposal value would have been £150,000, the cost, and Steve would have been able to claim PMAs on £150,000.

CAA01/S79 does not apply to expenditure on a car incurred on or after 1 April (corporation tax) or 6 April (income tax) 2009 but will continue to apply to expenditure incurred before that date until the end of the business's transitional period. The transitional period is defined at [CA23530](#).

CA23529 - PMA: Cars: Expenditure incurred before 1 or 6 April 2009: Employments and offices

CAA01/S36 & CAA01/S80

Expenditure by employees or office holders on road vehicles or cycles does not qualify for PMAs for 2002-03 onwards. However, up to 2001/02, an employee or office holder who buys a car, other road vehicle or a cycle has the choice of claiming capital allowances or taking part in the Fixed Car Profit Scheme. If the employee takes part in the Fixed Car Profit Scheme for a chargeable period the employee may not claim capital allowances for that chargeable period. The employee does not need to satisfy the necessarily condition ([CA20015](#)) to claim capital allowances on a car, other road vehicle or cycle.

If an employee or office holder has taken part in the Fixed Car Profit Scheme for some years but not others this is how you should calculate any balancing allowance:

- Deduct the disposal proceeds from the balance in the pool for that car;
- Multiply the result by the number of chargeable periods for which the employee has claimed capital allowances divided by the number of chargeable periods for which the employee could have claimed capital allowances;
- The answer is the balancing allowance.

CA23530 - PMA; Cars: Transitional rules for pre-April 2009 expenditure

FA09/Schedule 11 Para 31

Expenditure incurred before 1 April (where the person is within the charge to corporation tax) or 6 April (where the person is within the charge to income tax) 2009 on a car that cost less than £12,000 or that was a qualifying hire car ([CA23515](#)) will have been allocated to the main plant & machinery pool. This expenditure remains in the main pool after the introduction of the emissions-based rules ([CA23535](#)), and attracts WDAs at 20% per annum, until it is all relieved.

Pre-April 2009 expenditure that was required to be allocated to a single asset pool because it cost more than £12,000, as described in [CA23520](#), will remain in the single asset pool until the end of the transitional period, unless it has been disposed of before then. WDAs will continue to be calculated at 20%, capped at £3,000 per annum. At the end of the transitional period, if the car has not been disposed of, any balance of unrelieved expenditure will be carried forward to the main pool and added to the unrelieved expenditure in that pool.

Pre-April 2009 expenditure on a car that was used partly for non-business purposes ([CA23525](#)) will have been allocated to a single asset pool regardless of the cost of the car. It will remain in that single asset pool until it is disposed of to enable the private use adjustment to be made. WDAs will be given at 20% per annum regardless of the carbon dioxide emissions of the car. There is no £3,000 cap on the WDA once the transitional period has ended.

The transitional period will end on the last day of a business's first chargeable period to end on or after 31 March 2014 (for corporation tax) or 5 April 2014 (for income tax).

Example:

A company buys a car on 1 January 2008 costing £50,000. Its accounting period ends on 31 December each year. Its transitional period therefore ends on 31 December 2014. The car will be in a single asset pool (because it cost more than £12,000) until the end of the transitional period and WDA will be capped at £3,000 per annum for the 7 years to 31 December 2014. The unrelieved expenditure of £29,000 is then carried forward to the main pool. In the year ending 31 December 2015 WDAs may be claimed at 20% with no cap, regardless of the car's level of CO₂ emissions. If the car is sold on 1 June 2016 the disposal proceeds will reduce the available qualifying expenditure in the main pool.

CA23535 - PMA: Cars: Expenditure incurred on or after 1 or 6 April 2009: Outline of rules

CAA01/104A & 104AA

The rules described at [CA23520](#) are often referred to as the “expensive cars rules”. They were introduced in 1961 as a surrogate benefits charge on luxury cars and, as such, were seen as outdated by business given the subsequent introduction of the benefits-in-kind legislation. The pooling of expensive cars in single asset pools also imposed a disproportionate compliance burden on businesses. Following consultation on the options for modernising the rules, FA 2009 introduced new rules that would both encourage businesses to purchase cars with lower carbon dioxide emissions and reduce their administration costs.

The capital allowances treatment of expenditure on a car after April 2009 (full details of the commencement dates of the new rules are at [CA23540](#)) depends on the carbon dioxide emissions of the car rather than its cost. Expenditure after these dates will be pooled in one of two plant and machinery pools.

Broadly, expenditure on cars with CO₂ emissions of 160 grams per kilometre driven or less (cars with low CO₂ emissions) will be allocated to the main rate plant and machinery pool and attract WDA at 20% per annum. These are main rate cars. Expenditure on cars with emissions above this level will be allocated to the special rate pool and attract WDA at 10% per annum.

WDA are not capped.

If there is an element of non-business use of the car then the expenditure will still need to be allocated to a single asset pool in accordance with [CA27005](#) but the rate at which WDA are given will depend on the car's CO₂ emissions.

The special rules that applied to expenditure incurred on cars before April 2009 did not apply to qualifying hire cars as defined in [CA23515](#). The emissions based rules that apply from April 2009 apply to all cars; there is no category of qualifying hire cars for capital expenditure incurred after this date.

Certain cars with low CO₂ emissions, those with emissions of 110g/km or less, will still qualify for 100% FYA as described in [CA23153](#).

CA23540 - PMA: Cars: Commencement dates of CO2 emissions-based regime

FA2009/Schedule 11 Paras 26 - 29

The new emissions based rules apply to expenditure on a car incurred on or after
1 April 2009 (for CT purposes)
6 April 2009 (for IT purposes).

There is an exception to this general rule, however. Where expenditure is incurred on the provision of a car and it is incurred under an agreement that was entered into after 8 December 2008, the expenditure will be treated under the new capital allowances rules even if it is incurred before 1 or 6 April 2009. Note, however, that this rule only applies if the car does not have to be made available until 1 August 2009 (for CT purposes) or 6 August 2009 (for IT purposes).

This is an anti-forestalling rule. The new regime may be disadvantageous compared to the old in some circumstances. In the absence of such a rule, once the essential detail of the new emissions-based regime was published on 8 December 2008, it would otherwise have been possible to contrive to pay, or partly pay, for a car before April 2009, to ensure that the expenditure fell to be treated under the old rules, although the car was not actually delivered until some time after April 2009. The rule has been designed to protect against advance payments that would not ordinarily have been made and will, therefore, only apply to expenditure incurred on the provision of a car that does not have to be delivered until after 1 or 6 August 2009. Therefore, this rule would not apply to a deposit paid for a car in January 2009, say, to ensure delivery of the car in May 2009.

It is possible for some of the expenditure on a car to be treated under the old rules and some under the new rules. See [CA23550](#).

Example: On 30 December 2008 a company, with an accounting period to 31 December 2008 orders 2 cars. Car 1 costs £50,000; a deposit of £5,000 is paid on 30 December 2008 and the remaining £45,000 is not required to be paid until 31 May 2009 when the car is delivered. Car 2 costs £100,000; a deposit of £75,000 is paid on 30 December 2008, under an agreement entered into on that date, and the remaining £25,000 is not required to be paid until 31 August 2009 when the car is delivered. Both cars have CO2 emissions exceeding 160g/km.

The company has incurred £80,000 expenditure in the chargeable period to 31 December 2008. The £5,000 incurred on car 1 will be allocated to a single asset pool because the "old" rules apply and the total expenditure on the car exceeds £12,000. The £75,000 deposit on car 2 is allocated to the special rate pool under the new rules because although the expenditure is incurred before 1 April 2009, it is incurred under an agreement entered into after 8 December 2008 and the car does not have to be delivered until after 1 August 2009.

The remaining expenditure on both cars (£70,000) will be allocated to the special rate pool in the chargeable period to 31 December 2009 as it was all incurred after the commencement date for the new rules - 1 April 2009.

For these purposes an agreement is entered into if the following conditions are all met:

- there is a written contract for the provision of the car,
- the contract is unconditional, or all the conditions of a conditional contract have been met, and
- all the terms of the contract have been agreed.

CA23545 - PMA: Cars: CO2 emissions

CAA01/S268C

New expenditure (that is, expenditure which falls to be treated under the new rules described in [CA23535](#)) on a car is allocated to either the main plant and machinery pool or the special rate pool, providing that there is no non-business use of the car.

The appropriate pool is decided by the car's carbon dioxide emissions. Where the emissions are 160g/km driven or less the expenditure is allocated to the main pool and where the emissions exceed this threshold the expenditure is allocated to the special rate pool.

The car's emissions figure is that stated on the qualifying emissions certificate for the car when it was first registered. A qualifying emissions certificate is either an EC certificate of conformity or a UK approval certificate, in other words a car's emissions figures are stated on the V5. Emissions data for different makes and models of car can also be found on the Vehicle Certification Agency (VCA) website at www.vca.gov.uk.

Carbon dioxide emissions information included on the VCA website, in manufacturers' promotional literature and available at the point of sale is required to reflect the worst case figure for that particular model description. Therefore, specifying optional equipment on a new car (roof bars, say) should not result in the vehicle delivered having a higher emissions figure than expected. However, it is recommended that businesses seek confirmation of the emissions figure of the specific car they are buying from the dealer.

Cars which were first registered before 1 March 2001 do not have carbon dioxide emissions data on their registration documents. So, to make compliance with the new rules easier for businesses, expenditure on cars that were registered before this date will be allocated to the main pool regardless of their actual emissions.

The UK and other European Union countries require that cars sold must meet a set of environmental and safety standards, often referred to as type approval. Each car sold must conform to a type (of which a sample has been submitted by the manufacturer or importer) that has been approved by a national certification agency. The level of carbon dioxide emissions is one of the factors recorded during the type approval testing. Very small manufacturers are exempted from this process so the cars they produce may not have known emission figures. Such cars tend not to have low carbon dioxide emissions so expenditure on them will be allocated to the special rate pool. Again, this approach has been taken for simplicity.

Where there is non-business use of the car so that the expenditure is allocated to a single asset pool, the rate of writing down allowance (WDA) claimable will still depend on the carbon dioxide emissions of the car. WDA will be given at 20% per annum on cars with carbon dioxide emissions not exceeding 160g/km and cars registered before 1 March 2001 and at 10% per annum on cars with emissions above this threshold and cars registered after 1 March 2001 with no emissions data.

CA23550 - PMA; Cars: Expenditure on a car falling partly under the old rules and partly under the new

FA2009/Schedule 11 para. 30

The commencement dates for the new emissions-based rules are explained in [CA23540](#).

It is possible for some expenditure on a car to have been incurred at a time when the old rules applied and the balance of expenditure to be incurred at a time when the new rules apply. That is, it is possible to incur both old and new expenditure on the same car. Where this happens each block of expenditure is treated in accordance with the rules that apply at the time the expenditure is incurred, even if this means allocating expenditure on one car between two different pools.

Where expenditure incurred on the provision of a car includes both old and new expenditure and the car is disposed of, then the disposal proceeds are apportioned between the two pools on a just and reasonable basis. In practice, the disposal proceeds will be allocated to the two pools in the same ratio or proportions as the acquisition costs.

Example Luxury Travel Ltd buys a car for one of its employees with a total cost of £90,000. A deposit of £15,000 was paid on 1 March 2009 and the balance of £75,000 paid when the car was delivered on 20 July 2009. The data on the car's V5 shows that its emissions are 185g/km. The car is sold on 31 January 2012 for £50,000. The company's accounting date is 31 December.

The £15,000 will fall within the old rules. This expenditure will be allocated to a single asset pool as the car is an expensive car. WDA may be claimed at 20% per annum (capped at £3,000 per annum) until the car is sold. The maximum claims are:

APE 31 December 2009 £3,000

APE 31 December 2010 £2,400

APE 31 December 2011 £1,060

(Total WDA £6,460)

The £75,000 will fall to be treated under the new rules. The car's emissions exceed the 160g/km threshold, so the expenditure is allocated to the special rate pool and attract WDA at 10% per annum. This is the only expenditure in the special rate pool. The WDA that may be claimed are:

APE 31 December 2009 £7,500

APE 31 December 2010 £6,750

APE 31 December 2011 £6,075

(Total WDA £20,325)

When the car is sold in ape 31 December 2012 the disposal proceeds are apportioned in the same ratio as the acquisition costs. £8,333 ($£50,000 \times 15,000/90,000$) is taken to the single asset pool and there is a balancing allowance of £207. The remaining £41,667 is taken to the special rate pool and reduces the available expenditure in that pool to £13,008 which continues to be written off at 10% per annum.

CA23555 - PMA: Cars: Anti-avoidance: Disposals to a connected person

CAA01/S208A

Where a person disposes of a car, which is in a single asset pool because it is partly used for non-business purposes, to a connected person then the disposal value that is brought into account is the lower of the market value of a car and its cost to the person selling it.

This rule is to prevent the generation of a balancing allowance by the sale of a car in a single asset pool at undervalue.

The legislation also applies to contracts, other than sales, and any transactions to obtain allowances between connected persons (for example sales and leasebacks, assignment of hire purchase contracts etc).

Where this legislation applies, the qualifying expenditure of the person acquiring the car is the seller's disposal value.

This new legislation mirrors the anti-avoidance rule in the old capital allowances rules for cars described at [CA23527](#).

Example A buys a car for £100,000 on 1 May 2009. It has emissions of 185g/km and is used for non-business purposes 50% of the time. The expenditure is allocated to a single asset pool and WDA is given at 10%, restricted for the private use element. A sells the car to his son B on 1 January 2011 for £5,000, although the market value of the car is £95,000 on that date. A's disposal value is £95,000 rather than £5,000 and if B is able to claim capital allowances, his qualifying expenditure is also £95,000.

CA23560 - PMA: Cars: Expenditure after April 2009: Anti-avoidance rules

CAA01/S104F

Where expenditure on a car is allocated to either the main pool or special rate pool (where there is no non-business use of the car), there will be no balancing adjustment when the car is sold, or otherwise disposed of, unless the business is ceasing ([CA23210](#)). There will only be a balancing adjustment on the disposal of a car when the car is in a single asset pool.

If no balancing adjustment is made on disposal, it is possible that the economic loss made by a business over the period of ownership of the car will be written off over a longer period of time. This is particularly likely where the expenditure on the car is in the special rate pool and attracts WDA at 10%.

The legislation in section 104F is designed to prevent businesses contriving to wind up their activities to generate a balancing adjustment that would not otherwise be due on the cessation of the special rate pool.

The rule only applies to companies and only in certain circumstances:

- the qualifying activity of the company must permanently cease,
- the qualifying activity must be, or include, making cars available to other people,
- at some time in the six months following the cessation of the qualifying activity, another company in the same group as the ceasing company must carry on a qualifying activity of making cars available to other people,
- the ceasing company must have incurred expenditure on a car that has been allocated to the special rate pool, and
- on cessation of the qualifying activity the balancing allowance arising in the special rate pool is greater than any balancing charges, less balancing allowances, arising in other pools.

If all these conditions are met the balancing allowance that the company is entitled to in respect of the special rate pool is limited to an amount equal to the balancing charges, less balancing allowances, arising in other pools.

Any excess of the balancing allowance in the special rate pool over this amount is, instead, treated as qualifying expenditure to be allocated to the special rate pool of the other group company that carries on a qualifying trade of making cars available to other people. Where there is more than one group company carrying on such a qualifying activity, the ceasing company may nominate the company that will be treated as having incurred the nominal expenditure. The nomination must be made within 6 months of the company's final chargeable period and if no nomination is made then HMRC will choose the recipient company.

The group company (the recipient company) is treated as having incurred this "notional" expenditure on the day after the date of the first company's cessation. However, if this date falls in an accounting period which overlaps with the first company's penultimate accounting period, the appropriate proportion of the notional expenditure is not treated as qualifying expenditure in the acquisition period. However, it will be treated as qualifying expenditure in the following period.

Example Redshank Ltd is the parent company of a group; it has subsidiaries Dunlin Ltd and Knot Ltd. All three companies commenced trading on 1 January 2010 and have accounting dates of 31 December. All employees of the group are employed by Dunlin Ltd which carries on the group's manufacturing trade. Dunlin Ltd pays an annual fee to Knot Ltd so that Knot Ltd will provide its 50 employees with company cars. On 5 January 2010 Knot Ltd buys 50 cars, 10 of which cost £30,000 each and have CO₂ emissions of 185g/km driven. The remaining 40 cars cost £15,000 each and have emissions of 140g/km. Knot Ltd has no other plant and machinery.

Knot Ltd will allocate £300,000 of expenditure to the special rate pool (and will claim WDA of £30,000 in the period ending 31 December 2010) and £600,000 to the main pool (and would claim WDA of £120,000).

A third subsidiary, Turnstone Ltd, is set up on 1 July 2012 but does not commence trading until 1 May 2013. It has an accounting date of 30 June.

On 30 April 2013 Knot Ltd sells all of its cars to a car dealer, its agreement with Dunlin Ltd terminates and it ceases trading. It sells its cars for a total of £400,000, £100,000 of which is attributable to the cars in the special rate pool.

Knot Ltd claimed total WDA of £81,300 in respect of expenditure in the special rate pool in the periods ending 31 December 2010, 2011 and 2012, leaving a balance of expenditure of £218,700 unrelieved. The disposal proceeds are £100,000, so the potential balancing allowance is £118,700 in the special rate pool.

Knot Ltd also claimed total WDA of £211,200 in respect of expenditure in the main pool over this period leaving a balance of expenditure of £388,800. Disposal proceeds of £300,000 would give rise to a balancing allowance of £88,800.

However, on 1 May 2013 Turnstone Ltd buys 50 cars (all with emissions below 160g/km) which it provides to the employees of Dunlin Ltd. All the conditions required for section 104F to apply are therefore met. Knot Ltd **can**, then, only claim the balancing allowance arising in the main pool (£88,800). The balancing allowance arising in the special rate pool may not be claimed by Knot Ltd but instead Turnstone Ltd is treated as having incurred £118,700 special rate expenditure on 1 May 2013.

However, Turnstone Ltd may not claim WDA in respect of the full amount of £118,700 in the year to 30 June 2013 because this accounting period overlaps with Knot Ltd's penultimate accounting year to 31 December 2012. The overlap period is 6 months, so in the year to 30 June 2013 Turnstone Ltd may claim WDA in respect of only £59,350 ($£118,700 \times 6/12$). If Turnstone Ltd claims the maximum 10% WDA, then the expenditure carried forward in the special rate pool and on which WDA may be claimed in the year ending 30 June 2014 is £112,765 (being $£59,350 + (£59,350 - £5,935)$).

CA23620 - PMA: Short life assets: Meaning of short life asset

CAA01/S83 & S84

- An asset is a **short life asset** (SLA) if the person who incurs qualifying expenditure on it elects to treat it as a SLA **and** it is not excluded from SLA treatment. The actual or expected life of the asset is irrelevant in deciding whether or not it qualifies for SLA treatment. All that matters is that an election is made and that it is not specifically excluded.
- Assets that cannot be treated as SLAs are:
- assets that were provided for some other purpose including leasing under a long funding lease before being brought into use for a qualifying activity [CA23030](#);
- assets received as a gift [CA23040](#);
- assets used for special leasing [CA20040](#);
- cars apart from cars hired out to people in receipt of certain disability allowances [CA23510](#);
- long life assets [CA23700](#);
- special rate expenditure assets [CA20150](#);
- assets provided for leasing except:
 - those used in the designated period for a qualifying purpose and for no other purpose; and
 - cars provided for disabled people in receipt of certain allowances;
- assets leased overseas that qualify for WDAs at the 10% rate [CA24200](#);
- assets leased to two or more persons jointly where at least one lessee is a non- resident who does not use the asset exclusively for earning profits chargeable to tax and the leasing is not protected leasing [CA24400](#);
- ships [CA25000](#);
- assets used partly for a qualifying activity and partly for other purposes [CA27000](#);
- assets that receive a partial depreciation subsidy [CA27100](#).

CA23730 - PMA: Long life assets: Exclusions

CAA01/S93 - S96

Long-life asset treatment does not apply to expenditure:

- on the provision of plant or machinery which is a fixture in, or is provided for use in, a building used wholly or mainly as, or for purposes ancillary to the purposes of, a dwelling house, retail shop, showroom, hotel or office.
- incurred before 1 January 2011 on the provision of ships of a sea-going kind other than ones which:
 - are of a type primarily used for sport or recreation, or
 - are offshore installations for the purposes of the Mineral Workings (Offshore Installations) Act 1971, such as oil rigs or gas installations, or
 - would be offshore installations if the activities for which they are used or to be used were carried on in controlled waters.
- incurred before 1 January 2011 on the provision of railway assets for use wholly and exclusively in a railway business.
- on the provision of cars as defined in CAA01/S81 or CAA01/S268A [CA23510](#).

The list of excluded buildings is the same as the list in CAA01/S277 of buildings that are not industrial buildings for IBA [CA32310](#). The wholly or mainly condition is similar to the 25% rule in CAA01/S283 [CA32700](#) but it is wider than it. The 25% rule treats the whole of a building as an industrial building if the cost of constructing the parts that are not used for a qualifying trade is not more than 25% of the cost of constructing the whole building. You should accept that the wholly or mainly condition is satisfied if at least 75% of the building measured on a reasonable basis, for instance by cost or floor area, is used for purposes within the list of excluded buildings.

The definition of ships that are excluded from long-life asset treatment is broadly the same as the definition of qualifying ships for rollover relief [CA25350](#) except that there is no registration or weight requirement.

The definition of a railway includes a tramway or other system of guided transport. Railway assets are locomotives, rolling stock, tracks, stations, light maintenance depots, signalling equipment, power supplies and other associated apparatus. A railway business is a business or the part of a business that provides a public service of transporting goods or passengers by means of a railway in the UK or the Channel Tunnel. Expenditure on the provision of a railway asset for use (whether by the owner or by a lessee) wholly and exclusively for the purposes of a railway business is excluded from long-life asset treatment. Expenditure which involves a benefit to a non-railway business may satisfy the wholly and exclusively condition if the benefit is incidental (see [BIM42135](#)), for instance an electricity generator to supply power to a railway system which also incidentally supplies power to shops on railway stations. Parts of a station which are intended to be used to a material extent for other purposes are likely to fail the wholly and exclusively condition but may come within the shops and offices exclusion instead.

