HMRC - CA37710 - IBA: Effect Of Legislation

Budget 2007 announced a business tax reform package including the gradual withdrawal of IBAs and ABAs over four years. Legislation was introduced in FA08 to give effect to those changes. The phased withdrawal of IBA writing down allowances had effect for chargeable periods ending on or after 1 April 2008 for businesses within the charge to CT and 6 April 2008 for businesses within the charge to IT. This phasing out does not apply to EZ WDAs. They continue in full until the cut-off date. There are no IBA writing down allowances for the financial year beginning on 1 April 2011 and subsequent years.

The realisation of capital value legislation applies to buildings that qualify for enterprise zone allowances CA37100. It does not apply to any other buildings. It makes the realisation of capital value a balancing event but that balancing event cannot give rise to a balancing allowance.

The capital value realised is deducted from the residue of qualifying expenditure of expenditure at the time that the capital value is realised. This means that:

if the residue of qualifying expenditure is less than the capital value realised the difference is a balancing charge and no more WDA is made

if the residue of qualifying expenditure before the capital value is realised is nil the amount of the capital value realised is a balancing charge; and

if the residue of qualifying expenditure is more than the capital value realised WDA will still be made after the capital value has been realised. The rate of write-off will not change. There will, however, be a smaller amount of residue to relieve before the rule that says that allowances cannot exceed the residue cuts in CA34800.

Example Dave owns the freehold of a building in an enterprise zone. The expenditure qualifying for enterprise zone allowance is £5m. Dave decides not to take the initial allowance but instead to claim WDA. After 12 months, when the residue of unrelieved expenditure is £3.75m, Dave grants a long-lease to Roger for a premium of £2m. The realisation of capital value rule applies to reduce the residue of unrelieved expenditure from £3.75m to £1.75m. The WDA remains at £1.25m (£5m x 25%) and that will be the amount claimed in the second year but in year three the residue of unrelieved expenditure will be £500,000 and the WDA will be restricted to that amount.

Previous page

Next page