HMRC - OT21241 - First-Year Allowances For A Ring Fence Trade - Introduction

Finance Act 2002 introduced first-year allowances for capital expenditure incurred by companies wholly for the purpose of a ring fence trade subject to the supplementary charge. To qualify, the capital expenditure has to be first-year qualifying expenditure incurred on or after 17 April 2002 on plant or machinery or certain mineral extraction activities, principally mineral exploration and access.

The rate is normally 100% but is 24% for expenditure incurred on or before 11 March 2008 on plant or machinery long-life assets. The rules in CAA2001\S5 determine when expenditure is incurred.

The first-year allowances are withdrawn if the asset is used for another purpose within five years of the date on which the expenditure is incurred. However, allowances are not withdrawn following a sale to an unconnected party.

With the same 100% rate applying to expenditure on research and development, mineral exploration and access and plant or machinery (excluding long-life assets pre 12 March 2008), some of the distinctions made in the past are less important. Companies should maintain systems that distinguish between the three types of expenditure to ensure that the right treatment is applied on any subsequent disposals of the assets. For example, the disposal proceeds of a plant or machinery asset will normally be deducted from the general pool of expenditure, and so would not trigger an immediate balancing charge.

Withdrawal of plant and machinery allowances is covered at OT21246.

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