



# Corporation Tax Act 2010

## 2010 CHAPTER 4

### PART 9

#### LEASING PLANT OR MACHINERY

#### CHAPTER 1

#### INTRODUCTION

#### **358 Introduction to Part**

- (1) This Part makes provision about the taxation of leasing transactions involving companies.
- (2) Chapter 2 makes provision about the treatment for corporation tax purposes of companies which are lessors or lessees under long funding leases of plant or machinery.
- (3) The sales of lessors Chapters make provision about the taxation of a company which is within the charge to corporation tax in respect of a business of leasing plant or machinery (within the meaning of Chapter 3 or 4)—
  - (a) on the sale of, or certain other changes in interests in, the company, and
  - (b) in certain circumstances where the company's interest in the business changes.
- (4) In this Part “the sales of lessors Chapters” means Chapters 3 to 6.
- (5) In the sales of lessors Chapters—
  - (a) Chapter 3 deals with the case of a qualifying change of ownership in relation to the company where it carries on the business otherwise than in partnership,
  - (b) Chapter 4 deals with—
    - (i) the case of a qualifying change in the company's interest in the business where it carries on the business in partnership with other persons, and

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- (ii) the case of a qualifying change of ownership in relation to any such company,
  - (c) Chapter 5 contains anti-avoidance provisions, and
  - (d) Chapter 6 provides for the general interpretation of those Chapters.
- (6) For the meaning of “qualifying change of ownership” in the sales of lessors Chapters, see sections 392 to 398.
- (7) For the meaning of “qualifying change in a company's interest in a business” in Chapter 4, see section 415.

## CHAPTER 2

### LONG FUNDING LEASES OF PLANT OR MACHINERY

#### *Introduction*

#### **359 Overview of Chapter**

- (1) This Chapter makes provision about the calculation for corporation tax purposes of the profits of companies which are—
- (a) lessors of plant or machinery under long funding finance leases (see sections 360 to 362),
  - (b) lessors of plant or machinery under long funding operating leases (see sections 363 to 369),
  - (c) lessees of plant or machinery under long funding finance leases (see sections 377 and 378), or
  - (d) lessees of plant or machinery under long funding operating leases (see sections 379 and 380).
- (2) Sections 370 to 376 make provision about cases where sections 360 to 369 are not to apply.
- (3) For the meaning of expressions used in this section and in this Chapter generally, see section 381 and, in particular—
- (a) subsection (1) of that section (which provides for the application of Chapter 6A of Part 2 of CAA 2001 (interpretation of provisions about long funding leases) to this Chapter), and
  - (b) subsections (2) and (3) of that section (which specify the provisions of that Chapter in which some expressions used in this Chapter are defined).

#### *Lessors under long funding finance leases*

#### **360 Lessor under long funding finance lease: rental earnings**

- (1) This section applies for any period of account of a company in which it is the lessor of any plant or machinery under a long funding finance lease.
- (2) The amount to be brought into account as the lessor's income from the lease for the period is the amount of the rental earnings in respect of the lease for the period.

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- (3) The amount of those rental earnings is the amount which, in accordance with generally accepted accounting practice, falls (or would fall) to be treated as the gross return on investment for that period in respect of the lease.
- (4) If the lease is one which, in accordance with such practice, falls (or would fall) to be treated as a loan for the period of account, so much of the rentals under the lease as falls (or would fall) to be treated as interest is treated for the purposes of this section as rental earnings.

### **361 Lessor under long funding finance lease: exceptional items**

- (1) This section applies if—
  - (a) a company is or has been the lessor under a long funding finance lease, and
  - (b) an exceptional profit or loss arises to the company in connection with the lease.
- (2) A profit or loss is exceptional for the purposes of subsection (1) if—
  - (a) in accordance with generally accepted accounting practice it falls (or would fall) to be recognised for accounting purposes in a period of account, but
  - (b) apart from this section, it would not be brought into account in calculating the profits of the company for corporation tax purposes.
- (3) Such a profit is treated for corporation tax purposes as income of the company attributable to the lease.
- (4) Such a loss is treated for corporation tax purposes as a revenue expense incurred by the company in connection with the lease.
- (5) It does not matter for the purposes of this section whether the profit or loss is of an income or capital nature.
- (6) The reference in subsection (2) to an amount falling to be recognised for accounting purposes in a period of account is a reference to an amount falling to be recognised for accounting purposes in—
  - (a) the company's profit and loss account, income statement or statement of comprehensive income for that period,
  - (b) the company's statement of total recognised gains and losses, statement of recognised income and expense, statement of changes in equity or statement of income and retained earnings for that period, or
  - (c) any other statement of items taken into account in calculating the company's profits or losses for that period.

### **362 Lessor under long funding finance lease making termination payment**

- (1) This section applies if—
  - (a) a company is or has been the lessor under a long funding finance lease,
  - (b) the lease terminates, and
  - (c) a sum calculated by reference to the termination value is paid to the lessee.
- (2) No deduction in respect of the sum is allowed in calculating the profits of the company for corporation tax purposes.
- (3) This section does not prevent a deduction in respect of a sum so far as it is brought into account in determining the company's rental earnings.

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- (4) For the meaning of “termination value”, see section 381(3)(m).

*Lessors under long funding operating leases*

**363 Lessor under long funding operating lease: periodic deduction**

- (1) This section applies if a company is the lessor of any plant or machinery under a long funding operating lease for the whole or part of a period of account.
- (2) A deduction is allowed in calculating the profits of the company for the period of account for corporation tax purposes.
- (3) The amount of the deduction is so much of the expected gross reduction in value over the term of the lease as is attributable to the period of account.
- (4) The expected gross reduction in value over the term of the lease is—
  - (a) the starting value of the plant or machinery, less
  - (b) the amount which at the commencement of the term of the lease is expected to be its residual value (or, if section 365 applies, would have been expected to be that value had that value been estimated at that time).
- (5) The expected gross reduction in value over the term of the lease that is attributable to the period of account is found by apportioning that reduction on a time basis according to the proportion of the term of the lease that falls in the period of account.
- (6) For the meaning of “starting value”, see—
  - (a) section 364 (“starting value”: general), and
  - (b) section 365 (“starting value” where plant or machinery originally unqualifying).
- (7) For the meaning of “residual value”, see section 381(4).

**364 “Starting value”: general**

- (1) This section is about the meaning of “starting value” in section 363 in relation to a long funding operating lease (“the section 363 lease”).
- (2) But this section does not apply if the conditions in section 365(2) (“starting value” where plant or machinery originally unqualifying) are met.
- (3) If the only use of the plant or machinery by the lessor has been the leasing of it under the section 363 lease as a qualifying activity, the starting value is the amount of the expenditure incurred by the lessor on the provision of the plant or machinery (“cost”).
- (4) If subsection (3) does not apply, the starting value depends on the last previous use of the plant or machinery by the lessor.
- (5) If that use was the leasing of it under another long funding operating lease as a qualifying activity, the starting value is the market value of the plant or machinery at the commencement of the term of the section 363 lease (“market value”).
- (6) If that use was the leasing of it under a long funding finance lease as a qualifying activity, the starting value is the value at which the plant or machinery is recognised

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in the books or other finance records of the lessor at the commencement of the term of the section 363 lease.

- (7) If that use was for the purposes of a qualifying activity other than leasing under a long funding lease, the starting value is the lower of cost and market value.
- (8) For the meaning of “qualifying activity”, see section 381(4).

### **365 “Starting value” where plant or machinery originally unqualifying**

- (1) This section applies if the conditions in subsection (2) are met in relation to a long funding operating lease to which section 363 applies.
- (2) The conditions are that—
  - (a) the lessor owns the plant or machinery as a result of having incurred expenditure on its provision for purposes other than those of a qualifying activity,
  - (b) the plant or machinery is brought into use by the lessor for the purposes of a qualifying activity on or after 1 April 2006, and
  - (c) that qualifying activity is the leasing of the plant or machinery under the lease.
- (3) For the purposes of section 363 the starting value is the lower of—
  - (a) first use market value, and
  - (b) first use amortised market value.
- (4) “First use market value” means the market value of the plant or machinery at the time when it is first brought into use for the purposes of the qualifying activity.
- (5) “First use amortised value” means the value that the plant or machinery would have at the time when it is first brought into use for the purposes of the qualifying activity on the assumptions in subsection (6).
- (6) The assumptions are that—
  - (a) the cost of acquiring the plant or machinery had been written off on a straight line basis over its remaining useful economic life, and
  - (b) any further capital expenditure incurred had been written off on a straight line basis over so much of its remaining economic life as remains at the time when the expenditure is incurred.
- (7) For the meaning of “qualifying activity”, “remaining useful economic life” and writing off on a straight line basis, see section 381(4), (3)(i) and (5) respectively.

### **366 Long funding operating lease: lessor's additional expenditure**

- (1) This section applies if in any period of account—
  - (a) a company is the lessor of any plant or machinery under a long funding operating lease,
  - (b) the company incurs capital expenditure in relation to the plant or machinery (the “additional expenditure”), and
  - (c) the additional expenditure is not reflected in the market value of the plant or machinery at the commencement time (see subsection (7)).
- (2) An additional deduction is allowed in calculating the profits of the company for each period of account—

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- (a) which ends after the incurring of the additional expenditure, and
  - (b) in which the company is the lessor of the plant or machinery under the lease.
- (3) The amount of the deduction is so much of the expected reduction in value of the additional expenditure (“the expected reduction”) as is attributable to the period of account.
- (4) The expected reduction is the amount of the additional expenditure, less the remaining residual value of the plant or machinery resulting from that expenditure.
- (5) For how to determine that remaining residual value, see—
- (a) section 367 (determination of remaining residual value resulting from lessor's first additional expenditure), and
  - (b) section 368 (determination of remaining residual value resulting from lessor's further additional expenditure).
- (6) The amount of the expected reduction attributable to the period of account is found by apportioning that reduction on a time basis according to the proportion of the term of the lease that falls in the period of account.
- (7) In this section “the commencement time” means—
- (a) except where section 365 applies, the commencement of the term of the lease, and
  - (b) if that section applies, the time when the plant or machinery is first brought into use by the lessor for the purposes of the qualifying activity.

### **367 Determination of remaining residual value resulting from lessor's first additional expenditure**

- (1) This section sets out how the remaining residual value of the plant or machinery resulting from the additional expenditure (“RRV”) is determined for the purposes of section 366(4) if section 366 has not applied in relation to any previous additional expenditure incurred by the company in relation to the leased plant or machinery.
- (2) RRV depends on whether—
- (a) the amount (“ARV”) which is expected to be the residual value of the plant or machinery at the time when the additional expenditure is incurred, exceeds
  - (b) the amount (“CRV”) which at the commencement of the term of the lease is expected to be its residual value (or, if section 365 applies, would have been expected to be that value had that value been estimated at that time).
- (3) If ARV exceeds CRV, RRV is the part of the excess that is a result of the additional expenditure.
- (4) Otherwise, RRV is nil.
- (5) For the meaning of “residual value”, see section 381(4).

### **368 Determination of remaining residual value resulting from lessor's further additional expenditure**

- (1) This section sets out how the remaining residual value of the plant or machinery resulting from the additional expenditure (“RRV”) is determined for the purposes of

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section 366(4) if section 366 has applied in relation to previous additional expenditure incurred by the company in relation to the leased plant or machinery.

- (2) RRV depends on whether—
  - (a) the amount (“FARV”) which is expected to be the residual value of the plant or machinery at the time when the further additional expenditure is incurred, exceeds
  - (b) the sum of the amounts in subsection (3).
- (3) Those amounts are—
  - (a) the amount which at the commencement of the term of the lease is expected to be the residual value of the plant or machinery (or, if section 365 applies, would have been expected to be that value had that value been estimated at that time), and
  - (b) any amounts that were subtracted under section 366(4) as the remaining residual value of the plant or machinery resulting from the previous additional expenditure.
- (4) If FARV exceeds the sum of the amounts in subsection (3), RRV is the portion of the excess that is a result of the further additional expenditure.
- (5) Otherwise, RRV is nil.
- (6) For the meaning of “residual value”, see section 381(4).

### **369 Lessor under long funding operating lease: termination of lease**

- (1) This section applies in calculating the profits of a company for corporation tax purposes if it is the lessor immediately before the termination of a long funding operating lease.
- (2) If the termination amount (see section 381(3)(l)) exceeds the sum of the amounts in subsection (3), an amount equal to the excess is treated as income of the company attributable to the lease arising in the period of account in which it terminates.
- (3) The amounts referred to in subsection (2) are—
  - (a) the total amounts paid to the lessee that are calculated by reference to the termination value (see section 381(3)(m)),
  - (b) the excess relevant value for section 363 (see subsection (6)), and
  - (c) the excess expenditure for section 366 (see subsection (7)).
- (4) If the sum of the amounts in subsection (3) exceeds the termination amount, the excess is treated as a revenue expense incurred by the company in connection with the lease in the period of account in which it terminates.
- (5) No deduction is allowed in respect of any sums within subsection (3)(a).
- (6) “The excess relevant value for section 363” is the amount (if any) by which—
  - (a) the starting value of the plant or machinery for the purposes of section 363(4) (lessor under long funding operating lease: periodic deduction), exceeds
  - (b) the total of the deductions allowable under section 363 for periods of account for the whole or part of which the company was the lessor.
- (7) “The excess expenditure for section 366” is the amount (if any) by which—

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- (a) the total of any amounts of capital expenditure incurred by the company which constitute additional expenditure in the case of the lease for the purposes of section 366 (long funding operating lease: lessor's additional expenditure), exceeds
- (b) the total of any deductions allowable under section 366 for periods of account for the whole or part of which the company was the lessor.

*Cases where sections 360 to 369 do not apply*

### **370 Plant or machinery held as trading stock**

- (1) Sections 360 to 369 do not apply in relation to a long funding lease in the case of a company which is or has been the lessor of any plant or machinery under the lease if the condition in subsection (2) is met.
- (2) The condition is that any part of the expenditure incurred by the company on the acquisition of the plant or machinery for leasing under the lease—
  - (a) is allowable as a deduction (apart from sections 360 to 369) in calculating its profits or losses for corporation tax purposes, and
  - (b) is so allowable as a result of the plant or machinery forming part of its trading stock.
- (3) For the purposes of this section the cases in which expenditure incurred by a company on the acquisition of any plant or machinery for leasing under a lease is allowable as such a deduction include any case where—
  - (a) the company becomes entitled to the deduction at any time after the expenditure is incurred, and
  - (b) the deduction arises as a result of the plant or machinery forming part of its trading stock at that time.

### **371 Adjustments where sections 360 to 369 subsequently disapplied by section 370**

- (1) This section applies if—
  - (a) at any time any of sections 360 to 369 has applied for determining the amounts to be taken into account in calculating the profits or losses of a company for corporation tax purposes, and
  - (b) subsequently the condition in section 370(2) is met.
- (2) If this section applies—
  - (a) the amounts mentioned in subsection (1)(a), and
  - (b) any other amounts which, as a result of section 370, are to be taken into account in calculating the profits or losses of the company for corporation tax purposes,
 are subject to such adjustments as are just and reasonable.
- (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to this section.

### **372 Lessor also lessee under non-long funding lease**

- (1) This section applies if—



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- (a) a company is the lessee of any plant or machinery under a lease (“lease A”),
  - (b) lease A is not a long funding lease,
  - (c) the company enters into a lease (“lease B”) of any of that plant or machinery (as lessor), and
  - (d) lease B is a long funding lease.
- (2) Sections 360 to 369 do not apply in relation to lease B.
- (3) This section must be treated as never having applied in relation to lease B if lease A—
- (a) becomes a long funding lease as a result of section 70H of CAA 2001 (tax return by lessee treating lease as long funding lease), and
  - (b) has not ceased to be such a lease.

### **373 Other avoidance**

- (1) Sections 360 to 369 do not apply in relation to a long funding lease in the case of a company which is or has been the lessor of any plant or machinery under the lease if conditions A, B and C are met.
- (2) Condition A is that the lease forms part of any arrangement entered into by the company which includes one or more other transactions.
- (3) Condition B is that the main purpose, or one of the main purposes, of the arrangement is to secure that, over the lease period, there would be a substantial difference between the GAAP total and the tax total.
- (4) “The GAAP total” means the sum of the amounts under the arrangement which are, in accordance with generally accepted accounting practice—
- (a) recognised in determining the company's profit or loss for any period, or
  - (b) taken into account in calculating the amounts which are so recognised.
- (5) “The tax total” means the sum of the amounts under the arrangement which would (apart from this section) be taken into account in calculating the profits or losses of the company for corporation tax purposes.
- (6) Condition C is that the difference referred to in subsection (3) would be attributable (wholly or partly) to the application of any of sections 360 to 369 in relation to the company by reference to the plant or machinery under the lease.
- (7) This section is supplemented by sections 374 and 375.

### **374 Provision supplementing section 373**

- (1) It does not matter whether the arrangement referred to in condition A in section 373(2) is entered into before, after or at the inception of the long funding lease.
- (2) It does not matter whether the parties to any transaction which forms part of that arrangement differ from the parties to any of the other transactions.
- (3) The cases in which two or more transactions are to be taken as forming part of an arrangement for the purposes of section 373 include any case in which it would be reasonable to assume that one or more of them—
- (a) would not have been entered into independently of the other or others, or

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- (b) if entered into independently of the other or others, would not have taken the same form or been on the same terms.
- (4) For the purposes of condition B in section 373(3) “the lease period” means the period which—
  - (a) begins with the inception of the lease, and
  - (b) ends with the end of the term of the lease.
- (5) The reference in section 373(4) to an amount being recognised in determining a company's profit or loss for a period is to an amount being recognised for accounting purposes in—
  - (a) the company's profit and loss account, income statement or statement of comprehensive income for that period,
  - (b) the company's statement of total recognised gains and losses, statement of recognised income and expense, statement of changes in equity or statement of income and retained earnings for that period, or
  - (c) any other statement of items taken into account in calculating the company's profits or losses for that period.

### **375 Adjustments where sections 360 to 369 subsequently disapplied by section 373**

- (1) This section applies if—
  - (a) at any time any of sections 360 to 369 has applied for determining the amounts to be taken into account in calculating the profits or losses of the company for corporation tax purposes, and
  - (b) subsequently conditions A, B and C in section 373 are met.
- (2) If this section applies—
  - (a) the amounts mentioned in subsection (1)(a), and
  - (b) any other amounts which, as a result of section 373, are to be taken into account in calculating the profits or losses of the company for corporation tax purposes,
 are subject to such adjustments as are just and reasonable.
- (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to this section.

### **376 Films**

- (1) If a company is or has been a lessor under a long funding lease of a film, sections 360 to 369 do not apply in respect of the lease.
- (2) “Film” has the same meaning as in Part 15 of CTA 2009 (see section 1181 of that Act).

*Lessees under long funding finance leases*

### **377 Lessee under long funding finance lease: limit on deductions**

- (1) This section applies if a company is the lessee of any plant or machinery under a long funding finance lease for the whole or part of any period of account.

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- (2) In calculating the company's profits for the period of account for corporation tax purposes, the amount deducted in respect of amounts payable under the lease must not exceed the finance charges.
- (3) In subsection (2) “the finance charges” means the amounts which, in accordance with generally accepted accounting practice, fall (or would fall) to be shown in the company's accounts as finance charges<sup>[F1]</sup>, or interest expenses,] in respect of the lease.
- (4) If the lease is one which, in accordance with such practice, falls (or would fall), to be treated as a loan, subsections (2) and (3) apply as if the lease were one which, in accordance with such practice, fell to be treated as a finance lease.

#### Textual Amendments

- F1** Words in s. 377(3) inserted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by Finance Act 2019 (c. 1), [Sch. 14 para. 4\(4\)](#)

### [<sup>F2</sup>377A Lessee under long funding finance leases: right-of-use leases

- (1) This section applies if—
  - (a) for the whole or part of any period of account, a company is the lessee of any plant or machinery under a right-of-use lease that is a long funding finance lease,
  - (b) there is a change in the amounts payable under the lease, and
  - (c) as a result of the change and in accordance with generally accepted accounting practice—
    - (i) a remeasurement of the lease liability is shown in the person's accounts for the period of account, or
    - (ii) a deduction is shown in those accounts other than as an interest expense under the lease or an amount of depreciation, or an impairment, in respect of the right-of-use asset arising from the lease.
- (2) In calculating the company's profits for the period of account, the amount deducted in respect of amounts payable under the lease (after taking account of any limitation as a result of section 377) is to be increased or decreased so as to take account of the remeasurement or deduction mentioned in subsection (1)(c).
- (3) No adjustment is to be made under subsection (2) if the remeasurement or deduction results in the company being treated by section 70D of CAA 2001 (long funding finance lease: additional expenditure: allowances for lessee) as having incurred further capital expenditure on the provision of the plant or machinery.]

#### Textual Amendments

- F2** [S. 377A](#) inserted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by Finance Act 2019 (c. 1), [Sch. 14 para. 4\(5\)](#)

### 378 Lessee under long funding finance lease: termination

- (1) This section applies if—

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- (a) a company is or has been the lessee under a long funding finance lease, and
  - (b) in connection with the termination of the lease, a payment calculated by reference to the termination value falls to be made to the company.
- (2) The payment is not to be brought into account in determining the profits of the company for any period of account for corporation tax purposes.
- (3) Subsection (2) does not affect the amount of any disposal value that falls to be brought into account by the company under CAA 2001.
- (4) For the meaning of “termination value”, see section 381(3)(m).

*Lessees under long funding operating leases*

**379 Lessee under long funding operating lease**

- (1) This section applies if a company is the lessee of any plant or machinery under a long funding operating lease for the whole or part of any period of account.
- (2) The deductions allowed in calculating the profits of the company for the period of account for corporation tax purposes are reduced.
- (3) The amount of the reduction is so much of the expected gross reduction in value over the term of the lease as is attributable to the period of account.
- (4) The expected gross reduction in value over the term of the lease is the starting value of the plant or machinery, less its expected end value.
- (5) For the meaning of “starting value”, see section 380.
- (6) The expected end value of plant or machinery is the amount which—
- (a) at the commencement of the term of the lease is expected to be its market value at the end of the term, or
  - (b) if section 380(3) applies, would have been expected to be that value had that value been estimated at the commencement of the term.
- (7) The expected gross reduction in value over the term of the lease that is attributable to the period of account is found by apportioning that reduction on a time basis according to the proportion of the term of the lease that falls in the period of account.

**380 “Starting value” in section 379**

- (1) This section is about the meaning of “starting value” in section 379 in relation to a long funding operating lease (“the section 379 lease”).
- (2) Except where subsection (3) applies, the starting value is the market value of the plant or machinery at the commencement of the term of the section 379 lease.
- (3) This subsection applies if the lessee—
- (a) has the use of the plant or machinery as a result of having incurred expenditure on its provision for purposes other than those of a qualifying activity, but
  - (b) brings the plant or machinery into use for the purposes of a qualifying activity on or after 1 April 2006.
- (4) If subsection (3) applies, the starting value is the lower of—

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- (a) first use market value, and
  - (b) first use amortised market value.
- (5) “First use market value” means the market value of the plant or machinery at the time when it is first brought into use for the purposes of the qualifying activity.
- (6) “First use amortised market value” means the value that the plant or machinery would have at the time when it is first brought into use for the purposes of the qualifying activity on the assumption in subsection (7).
- (7) That assumption is that the market value of the plant or machinery at the commencement of the term of the section 379 lease had been written off on a straight line basis over its remaining useful economic life.
- (8) For the meaning of “qualifying activity”, “remaining useful economic life” and writing off on a straight line basis, see section 381(4), (3)(i) and (5) respectively.

### *Interpretation*

## **381 Interpretation of Chapter**

- (1) Chapter 6A of Part 2 of CAA 2001 (interpretation of provisions about long funding leases) applies in relation to this Chapter as it applies in relation to that Part.
- (2) Accordingly—
- “the finance lease test” means the finance lease test in section 70N of CAA 2001,
  - “long funding lease” has the meaning given by section 70G of that Act,
  - [<sup>F3</sup>“long funding finance lease” means—
    - (a) in relation to any person, a long funding lease that meets the finance lease test as a result of section 70N(1)(a) of that Act, or
    - (b) in relation to a lessee, a right-of-use lease (see section 70YI(1) of that Act) which is a long funding lease—
      - (i) that meets the lease payments test in section 70O of that Act or the useful economic life test in section 70P of that Act, but
      - (ii) is not a lease that, before a relevant change of classification (see section 70YA(11) of that Act), was a long funding operating lease;]  - “long funding operating lease” means a long funding lease that is not a long funding finance lease.
- (3) As to the meaning of the following other expressions used in this Chapter and defined in Chapter 6A of Part 2 of CAA 2001, see—
- (a) for “commencement”, in relation to the term of a lease, section 70YI(1) of that Act,
  - (b) for “inception”, section 70YI(1) of that Act,
  - (c) for “lease”, section 70YI(1) of that Act,
  - (d) for “lessee”, section 70YI(1) of that Act,
  - (e) for “lessor”, section 70YI(1) of that Act,
  - (f) for “market value”, in relation to plant or machinery, section 70YI(2) of that Act,

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- (g) for “plant or machinery”, in relation to a lease, section 70YI(3) of that Act,
  - (h) for “plant or machinery lease”, section 70YI(1) of that Act,
  - (i) for “remaining useful economic life”, section 70YI(1) of that Act,
  - (j) for “the term”, in relation to a lease, section 70YI(1) of that Act,
  - (k) for “termination”, section 70YI(1) of that Act,
  - (l) for “termination amount”, section 70YG of that Act, and
  - (m) for “termination value”, section 70YH of that Act.
- (4) In this Chapter—
- “qualifying activity” has the same meaning as in Part 2 of CAA 2001, and
  - “residual value”, in relation to any plant or machinery leased under a long funding operating lease, means—
    - (a) the estimated market value of the plant or machinery on a disposal at the end of the term of the lease, less
    - (b) the estimated costs of that disposal.
- (5) Any reference in this Chapter to a sum being written off on a straight line basis over a period of time (the “writing-off period”) is a reference to—
- (a) the sum being apportioned between each of the periods of account in which any part of the writing-off period falls,
  - (b) that apportionment being made on a time basis, according to the proportion of the writing-off period that falls in each of the periods of account, and
  - (c) the sum being written off accordingly.

#### **Textual Amendments**

- F3** Words in s. 381(2) substituted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by Finance Act 2019 (c. 1), **Sch. 14 para. 4(6)**

## **CHAPTER 3**

### SALES OF LESSORS: LEASING BUSINESS CARRIED ON BY A COMPANY ALONE

#### *Introduction*

#### **382 Introduction to Chapter**

- (1) This Chapter applies if there is a [<sup>F4</sup>relevant change in the relationship between] a company carrying on a business of leasing plant or machinery otherwise than in partnership with other persons [<sup>F5</sup>and a principal company of the company].
- (2) For the meaning of “business of leasing plant or machinery”, see sections 387 to 391.
- (3) For the meaning of [<sup>F6</sup>“relevant change in the relationship between a company and a principal company of the company”], see sections 392 to 394.]
- (4) As to cases where there is a qualifying change of ownership in relation to a company carrying on a business of leasing plant or machinery in partnership with other persons, see Chapter 4.

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#### Textual Amendments

- F4** Words in s. 382(1) substituted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 18 para. 2\(2\)\(a\)](#)
- F5** Words in s. 382(1) inserted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 18 para. 2\(2\)\(b\)](#)
- F6** Words in s. 382(3) substituted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 18 para. 2\(3\)](#)

### *Income and matching expense in different accounting periods*

## **383 Income and matching expense in different accounting periods**

- (1) This section applies if on any day (“the relevant day”)—
- a company carries on a business of leasing plant or machinery otherwise than in partnership,
  - the company is within the charge to corporation tax in respect of the business, and
  - there is a qualifying change of ownership in relation to the company.

[<sup>F7</sup>(1A) For the meaning of “qualifying change of ownership”, see sections 394A to 398A.]

- (2) On the relevant day—
- the company is treated as receiving an amount of income, and
  - the accounting period of the company ends.
- (3) The income—
- is treated as a receipt of the business, and
  - is brought into account in calculating for corporation tax purposes the profits of the business for that accounting period.
- (4) On the day following the relevant day—
- the company is treated as incurring an expense, and
  - a new accounting period of the company begins.
- (5) The expense—
- is treated as an expense of the business, and
  - is allowed as a deduction in calculating for corporation tax purposes the profits of the business for that new accounting period.
- (6) This section is supplemented by sections 384 to 386.

#### Textual Amendments

- F7** S. 383(1A) inserted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 18 para. 3](#)

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### 384 Amount of income and expense

- (1) The amount of the income under section 383 is calculated in accordance with sections 399 to 407.
- (2) The amount of the expense under section 383 is the same as the amount of the income.

### 385 [F8 No carry back of loss against the income]

- (1) This section applies if the business carried on by the company is a trade carried on wholly or partly in the United Kingdom the profits of which are chargeable to corporation tax under Chapter 2 of Part 3 of CTA 2009 (trading income).
- [F9 (2) No part of a loss may be deducted under section 37(3)(b) (relief for trade losses against total profits of earlier accounting periods) [F10 or section 45F (relief for terminal trade losses)] from so much of the company's total profits as derive from the income.
- (3) For the purpose of determining how much of those profits derive from the income, those profits are to be calculated on the basis that the income is the final amount to be added.]

#### Textual Amendments

- F8** Words in s. 385 heading substituted (with effect in accordance with s. 24(9) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(2\)\(b\)](#)
- F9** S. 385(2)(3) substituted (with effect in accordance with s. 24(9) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(2\)\(a\)](#)
- F10** Words in s. 385(2) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 4 para. 164](#)

### 386 Relief for expense otherwise giving rise to carried forward loss

- (1) This section applies if—
  - (a) there is a qualifying change of ownership in relation to a company on any day (“the relevant day”),
  - (b) on the following day the company is treated under section 383 as incurring an expense of a business and an accounting period of the company (“period 1”) begins,
  - (c) the company makes a loss in period 1 or a later accounting period,
  - (d) apart from this section some or all of that loss (“the carried forward loss”) would be carried forward to the next accounting period of the company after the accounting period in which the loss is made (“the subsequent period”),
  - (e) some or all of the carried forward loss (“the derived loss”) derives from—
    - (i) the expense under section 383, or
    - (ii) an expense treated as arising under subsection (2) and allowed as a deduction for the accounting period in which the loss is made, and
  - (f) the subsequent period starts within the period of 5 years beginning immediately after the relevant day and does not start as a result of section 383 or 425.
- (2) Instead of being so carried forward, the derived loss is to be treated for corporation tax purposes as giving rise to an expense of an amount equal to—



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$$DL + \frac{DL \times D \times R}{365}$$

where—

DL is the derived loss,

D is the number of days in the accounting period in which the loss is made, and

R is the percentage rate applicable to section 826 of ICTA under section 178 of FA 1989.

- (3) The amount of the expense under this section is allowed as a deduction in calculating for corporation tax purposes the profits of the business for the subsequent period.
- (4) For the purpose of determining how much of the carried forward loss derives from the expense under section 383 or an expense within subsection (1)(e)(ii), the loss is to be calculated on the basis that that expense is the final amount to be deducted.

*“Business of leasing plant or machinery”*

### **387 “Business of leasing plant or machinery”**

- (1) This section determines for the purposes of this Chapter whether, on any day (“the relevant day”), a company (“the relevant company”) carries on a business of leasing plant or machinery.
- (2) A business carried on by the relevant company is a business of leasing plant or machinery on the relevant day if condition A or B is met.
- (3) Condition A is that at least half of the relevant plant or machinery value relates to [F11]plant or machinery falling within subsection (7)].
- (4) Subsection (3) is supplemented by section 388.
- [F12](5) Condition B is that at least half of the relevant company's income in the past 12 months derives from plant or machinery falling within subsection (7).]
- (6) Subsection (5) is supplemented by section 391.
- [F13](7) Plant or machinery falls within this subsection if—
  - (a) it is or at any time in the past 12 months has been leased out by the relevant company or a qualifying associate,
  - (b) the lease under which it is or has been leased out is a plant or machinery lease but not an excluded lease of background plant or machinery for a building (see section 437(3)), and
  - (c) if the plant or machinery satisfies paragraph (a) only because it is or has been leased out by a qualifying associate, the lessee under the lease is or was someone other than the relevant company.
- (8) For the purposes of subsection (7)—
  - (a) plant or machinery is “leased out” by a person if it is subject to a plant or machinery lease under which that person is a lessor,
  - (b) “associate ” means a person connected with the relevant company (see also subsection (9)), and

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- (c) a person is a “qualifying associate” if the person is an associate at the start of the relevant day or at any earlier time in the past 12 months (whether or not a time when the plant or machinery was leased out by the person).
- (9) If the relevant company is owned by a consortium or is a qualifying 75% subsidiary of a company owned by a consortium, the reference in subsection (8)(b) to a person connected with the relevant company also includes—
  - (a) any member of the consortium, and
  - (b) any person connected with such a member.
- (10) A reference in this section to the past 12 months is to the period of 12 months ending with the relevant day.]

#### Textual Amendments

- F11** Words in s. 387(3) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#) , [Sch. 6 para. 2\(2\)](#)
- F12** S. 387(5) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#) , [Sch. 6 para. 2\(3\)](#)
- F13** S. 387(7)-(10) substituted for s. 387(7)(8) (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#) , [Sch. 6 para. 2\(4\)](#)

### 388 “Relevant plant or machinery value” for condition A in section 387

- (1) This section applies for the purposes of condition A in section 387.
- (2) The relevant plant or machinery value is the sum of the amounts in subsection (3), but subject to section 390 (relevant plant or machinery value where relevant company lessee under long funding lease etc).
- (3) The amounts are—
  - (a) the amounts (if any) that would be shown in respect of plant or machinery in the appropriate balance sheet of the relevant company drawn up as at the start of the relevant day, and
  - (b) the amounts (if any) that would be shown in the appropriate balance sheet of the relevant company drawn up as at the end of the relevant day in respect of relevant transferred plant or machinery.
- (4) For the purposes of subsection (3)(b) plant or machinery is “relevant transferred plant or machinery” if an amount in respect of it would be shown in the appropriate balance sheet of an associated company drawn up as at the start of the relevant day.
- (5) This section is supplemented by section 389.

### 389 Provision supplementing section 388

- (1) For the purposes of section 388 and this section the amounts shown in the appropriate balance sheet of any company in respect of any plant or machinery are—
  - (a) the amounts shown in that balance sheet as the net book value (or carrying amount) in respect of the plant or machinery, and
  - (b) the amounts shown in that balance sheet as the net investment in respect of finance leases of the plant or machinery.

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- (2) If—
- (a) any of the plant or machinery is a fixture in any land (see section 437(5)), and
  - (b) the amount which falls (or would fall) to be shown in an appropriate balance sheet as the net book value (or carrying amount) of the land includes (or would include) an amount in respect of the fixture,
- the amount of the net book value (or carrying amount) in respect of the fixture is determined on a just and reasonable basis.
- (3) If—
- (a) any of the plant or machinery is subject to a finance lease (see section 437(4)), and
  - (b) any land or other asset which is not plant or machinery is subject to that lease,
- the amount of the net investment in respect of the finance lease of that plant or machinery is determined on a just and reasonable basis.
- (4) In section 388 and this section any reference to any amount shown in the appropriate balance sheet of a company is to the amount which, on the assumptions in subsection (5), falls (or would fall) to be shown in a balance sheet of the company.
- (5) The assumptions are—
- (a) that the balance sheet is drawn up in accordance with generally accepted accounting practice, and
  - (b) that, if the company acquired any plant or machinery in circumstances in which this paragraph applies, the plant or machinery had been acquired for an amount equal to its [<sup>F14</sup>ascribed value] as at the relevant day.
- (6) Paragraph (b) of subsection (5) applies if—
- (a) the relevant day falls on or after 22 March 2006,
  - (b) the plant or machinery was acquired directly or indirectly from a person who was connected with the company when the acquisition took place, and
  - (c) either the acquisition took place on or after 5 December 2005 or the person from whom the plant or machinery was so acquired was also connected with the company on that date.

#### Textual Amendments

**F14** Words in s. 389(5)(b) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\), Sch. 6 para. 3](#)

### **390 Relevant plant or machinery value where relevant company lessee under long funding lease etc**

- (1) Any amount included in the amounts mentioned in section 388(2) in respect of plant or machinery to which this section applies is to be deducted from the sum mentioned in that section.
- (2) But the [<sup>F15</sup>ascribed value] as at the relevant day of any plant or machinery to which this section applies is to be added to that sum or, if that sum is nil, is the relevant plant or machinery value.
- (3) This section applies to plant or machinery if—

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- (a) condition A or B is met at the start of the relevant day, or
  - (b) the plant or machinery is acquired by the relevant company from an associated company on the relevant day and condition A or B is met at the end of that day.
- (4) Condition A is that the relevant company is the lessee of the plant or machinery under a long funding finance lease or a long funding operating lease.
- (5) Condition B is that the relevant company is treated as the owner of the plant or machinery under section 67 of CAA 2001 (hire purchase and similar contracts).

#### Textual Amendments

**F15** Words in s. 390(2) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 4](#)

### 391 Relevant company's income for condition B in section 387

- (1) This section applies for the purposes of condition B in section 387.
- (2) The reference to the relevant company's income is to its income as calculated for corporation tax purposes.
- (3) Any apportionment necessary to determine the amount of the relevant company's income attributable to the period of 12 months ending with the relevant day is to be made on a time basis.
- (4) But—
  - (a) that basis does not apply if it would work in an unjust or unreasonable way in relation to any person, and
  - (b) in that case the apportionment is to be made instead on a just and reasonable basis.
- (5) The proportion of the income that derives from [<sup>F16</sup>plant or machinery falling within section 387(7)] is to be determined on a just and reasonable basis.

#### Textual Amendments

**F16** Words in s. 391(5) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 5](#)

[<sup>F17</sup> “Relevant change in relationship” ]

#### Textual Amendments

**F17** S. 392 and cross-heading substituted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 18 para. 4](#)

### [<sup>F17</sup>392 “Relevant change in relationship”

For the purposes of the sales of lessors Chapters there is a relevant change in the relationship between a company (“A”) and a principal company of A on any day

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in any of the circumstances in section 393 or 394 (qualifying 75% subsidiaries and consortium relationships) [<sup>F18</sup>or section 394ZA (company joining tonnage tax group)]].

#### Textual Amendments

**F18** Words in s. 392 inserted (with effect in accordance with s. 24(10) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(3\)](#)

### 393 Qualifying 75% subsidiaries

- (1) A company (“B”) is a principal company of A if—
  - (a) A is a qualifying 75% subsidiary of B, and
  - (b) B is not a qualifying 75% subsidiary of another company.
- (2) There is a relevant change in the relationship between A and B (as a principal company) on any day if A ceases to be a qualifying 75% subsidiary of B on that day.
- (3) A company (“C”) is a principal company of A if—
  - (a) A is a qualifying 75% subsidiary of B,
  - (b) B is a qualifying 75% subsidiary of C, and
  - (c) C is not a qualifying 75% subsidiary of another company.
- (4) There is a relevant change in the relationship between A and C (as a principal company) on any day if—
  - (a) A ceases to be a qualifying 75% subsidiary of B on that day, or
  - (b) B ceases to be a qualifying 75% subsidiary of C on that day.
- (5) If C is a qualifying 75% subsidiary of another company (“D”), D is a principal company of A unless D is a qualifying 75% subsidiary of another company, and so on.
- (6) Accordingly, there is a relevant change in the relationship between A and a principal company of A on any day if—
  - (a) in determining which company is a principal company, regard is had to any company which is a qualifying 75% subsidiary of another, and
  - (b) that company ceases to be a qualifying 75% subsidiary of the other on that day.
- (7) This section is supplemented by section 398 (“qualifying 75% <sup>F19</sup>... subsidiary” etc).

#### Textual Amendments

**F19** Words in s. 393(7) omitted (with effect in accordance with s. 29(8) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\), s. 29\(2\)](#)

### 394 Consortium relationships

- (1) A company (“E”) is a principal company of A if—
  - (a) A is owned by a consortium of which E is a member, or
  - (b) A is a qualifying [<sup>F20</sup>75%] subsidiary of a company owned by a consortium of which E is a member,and E is not a qualifying 75% subsidiary of another company.

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- (2) There is a relevant change in the relationship between A and E (as a principal company) on any day if the ownership proportion at the end of the day is less than the ownership proportion at the start of the day.
- (3) In this section “the ownership proportion” is whichever is the lowest of the following percentages—
  - (a) the percentage of the ordinary share capital of A that is beneficially owned by E,
  - (b) the percentage to which E is beneficially entitled of any profits available for distribution to equity holders of A, and
  - (c) the percentage to which E would be beneficially entitled of any assets of A available for distribution to its equity holders on a winding up.
- (4) But if A is a qualifying [<sup>F21</sup>75%] subsidiary of a company, subsection (3) is to be read as if references to that company were substituted for references to A.
- (5) A company (“F”) is a principal company of A if, in a case where E is a qualifying 75% subsidiary of F but F is not a qualifying 75% subsidiary of another company—
  - (a) A is owned by a consortium of which E is a member, or
  - (b) A is a qualifying [<sup>F22</sup>75%] subsidiary of a company owned by a consortium of which E is a member.
- (6) There is a relevant change in the relationship between A and F (as a principal company) on any day if—
  - (a) the ownership proportion at the end of the day is less than the ownership proportion at the start of the day, or
  - (b) E ceases to be a qualifying 75% subsidiary of F on that day.
- (7) If F is a qualifying 75% subsidiary of another company (“G”), G is a principal company of A unless G is a qualifying 75% subsidiary of another company, and so on.
- (8) Accordingly, there is a relevant change in the relationship between A and a principal company of A on any day if—
  - (a) in determining which company is a principal company, regard is had to any company which is a qualifying 75% subsidiary of another, and
  - (b) that company ceases to be a qualifying 75% subsidiary of the other on that day, (as well as if the ownership proportion at the end of the day is less than the ownership proportion at the start of the day).
- (9) This section is supplemented by—
  - (a) section 397 (companies owned by consortiums and members of consortiums), and
  - (b) section 398 (“qualifying 75% <sup>F23</sup> ... subsidiary” etc).

#### Textual Amendments

- F20** Figure in s. 394(1)(b) substituted (with effect in accordance with s. 29(8) of the amending Act) by [Finance Act 2010 \(c. 13\), s. 29\(3\)\(a\)](#)
- F21** Figure in s. 394(4) substituted (with effect in accordance with s. 29(8) of the amending Act) by [Finance Act 2010 \(c. 13\), s. 29\(3\)\(a\)](#)
- F22** Figure in s. 394(5)(b) substituted (with effect in accordance with s. 29(8) of the amending Act) by [Finance Act 2010 \(c. 13\), s. 29\(3\)\(a\)](#)

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**F23** Words in s. 394(9)(b) omitted (with effect in accordance with s. 29(8) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\), s. 29\(3\)\(b\)](#)

### [<sup>F24</sup>394ZA Company joining tonnage tax group

There is a relevant change in the relationship between A and a principal company of A on any day if—

- (a) on that day A becomes a member of a tonnage tax group for the purposes of Schedule 22 to FA 2000 without entering tonnage tax on that day, or
- (b) the day ends immediately before the day on which, for the purposes of that Schedule, A both becomes a member of a tonnage tax group and enters tonnage tax.]

#### Textual Amendments

**F24** S. 394ZA inserted (with effect in accordance with s. 24(10) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(4\)](#)

### [<sup>F25</sup> “Qualifying change of ownership”

#### Textual Amendments

**F25** S. 394A and cross-heading inserted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\), Sch. 18 para. 5](#)

### 394A “Qualifying change of ownership”

[ For the purposes of the sales of lessors Chapters there is a qualifying change of ownership in relation to a company (“A”) on any day if there is a relevant change in the relationship on that day between A and a principal company of A unless any of the following apply—

- (a) section 395(2),
- (b) section 396(2), or
- (c) section 398A(2) or (5).

[ If the qualifying change of ownership would (but for this subsection) occur on any <sup>F27</sup>(2) day as a result of—

- (a) section 393 or 394ZA, or
- (b) section 394 or 394ZA,

it is treated instead for the purposes of the sales of lessors Chapters as occurring on that day solely as a result of section 394ZA.]]

#### Textual Amendments

**F26** S. 394A(1) renumbered (with effect in accordance with s. 24(10) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(5\)\(a\)](#)

**F27** S. 394A(2) inserted (with effect in accordance with s. 24(10) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(5\)\(b\)](#)

*Status: Point in time view as at 26/06/2020.*

*Changes to legislation: Corporation Tax Act 2010, Part 9 is up to date with all changes known to be in force on or before 13 July 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)*

### **395 No qualifying change of ownership in certain intra-group reorganisations**

- (1) This section applies if—
- (a) a relevant change in the relationship between a company (“A”) and a principal company of A occurs on any day,
  - (b) that change occurs by reference to A or any other company ceasing to be a qualifying 75% subsidiary on that day, and
  - (c) A, and every company by reference to which that change occurs, are qualifying 75% subsidiaries of the principal company concerned at the start and end of that day.
- (2) For the purposes of the sales of lessors Chapters, there is no qualifying change of ownership in relation to A on that day as a result of that change in the relationship.

### **396 No qualifying change of ownership where principal company's interest in consortium company unchanged**

- (1) This section applies if—
- (a) a company (“A”) is owned by a consortium, and
  - (b) a relevant change in the relationship between A and a principal company of A occurs on any day,
- but the principal company's interest in A remains unchanged.
- (2) For the purposes of the sales of lessors Chapters, there is no qualifying change of ownership in relation to A on that day as a result of that change in that relationship.
- (3) For the purposes of this section the principal company's interest in A remains unchanged if the percentage of the ordinary share capital of A that is beneficially owned directly or indirectly by the principal company is the same at the beginning and end of that day.
- (4) Sections 1155 to 1157 apply for construing subsection (3).

### **397 Companies owned by consortiums and members of consortiums**

- (1) This section defines what a company being owned by, or a member of, a consortium means for the purposes of the sales of lessors Chapters.
- (2) A company is owned by a consortium if—
- (a) it is not a qualifying 75% subsidiary of any company,
  - (b) at least 75% of its ordinary share capital is beneficially owned between them by other companies, and
  - (c) none of those other companies owns less than 5% of that capital.
- (3) Those other companies are the members of the consortium.

### **398 “Qualifying 75%<sup>F28</sup> ... subsidiary” etc**

- (1) For the purposes of the sales of lessors Chapters, a company (“the subsidiary company”) is a qualifying 75% subsidiary of another company (“the parent company”) if condition A or B is met and condition C is met.
- (2) Condition A is that—



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- (a) the subsidiary company has ordinary share capital, and
  - (b) the subsidiary company is a 75% subsidiary of the parent company.
- (3) Condition B is that—
- (a) the subsidiary company does not have ordinary share capital, and
  - (b) the parent company has control of the subsidiary company.
- (4) Condition C is that the parent company—
- (a) is beneficially entitled to at least 75% of any profits available for distribution to equity holders of the subsidiary company, and
  - (b) would be beneficially entitled to at least 75% of any assets of the subsidiary company available for distribution to its equity holders on a winding up.
- <sup>F29</sup>(5) . . . . .
- <sup>F30</sup>(6) . . . . .
- (7) Chapter 6 of Part 5 (equity holders and profits or assets available for distribution)—
- (a) applies for the purposes of section 394(3)(b) and (c) (including that section as applied for the purposes of section 406(5)) and of section 405(5)(b) and (c) as that Chapter applies for the purposes of section 143(3)(b) and (c) (condition 1: surrendering company owned by consortium) and section 144(3)(b) and (c) (condition 1: claimant company owned by consortium), and
  - (b) applies for the purposes of subsection (4)(a) and (b) as that Chapter applies for the purposes of section 151(4)(a) and (b) (meaning of “ 75% subsidiary ”<sup>F31</sup> . . .).
- (8) But in a case where the subsidiary company does not have ordinary share capital, Chapter 6 of Part 5 applies for those purposes as if the members of that company were equity holders of that company for the purposes of that Chapter.

**Textual Amendments**

- F28** Words in s. 398 heading omitted (with effect in accordance with s. 29(8) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [s. 29\(4\)](#)
- F29** S. 398(5) omitted (with effect in accordance with s. 29(8) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [s. 29\(4\)\(a\)](#)
- F30** S. 398(6) omitted (with effect in accordance with s. 29(8) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [s. 29\(4\)\(a\)](#)
- F31** Words in s. 398(7)(b) omitted (with effect in accordance with s. 29(8) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [s. 29\(4\)\(b\)](#)

*<sup>F32</sup>Election out of qualifying change of ownership*

**Textual Amendments**

- F32** Ss. 398A-398G and cross-heading inserted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 18 para. 6](#) (with [Sch. 18 paras. 11-13](#))

*Status: Point in time view as at 26/06/2020.*

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### 398A Election out of qualifying change of ownership

- (1) This section applies if—
  - (a) on any day [<sup>F33</sup> before 23 March 2011 ] (“ the relevant day ”) a company (“A”) carries on a business of leasing plant or machinery otherwise than in partnership,
  - (b) there is a relevant change in the relationship between A and a principal company of A (“P”) on the relevant day, and
  - (c) an election that this section is to apply is made by A.
- (2) For the purposes of the sales of lessors Chapters, there is no qualifying change of ownership in relation to A on the relevant day as a result of the change in the relationship but—
  - (a) subsections (2)(b) and (4)(b) of section 383 nevertheless apply,
  - (b) section 398D (and section 398C so far as relating to it) has effect during the relevant period, and
  - (c) sections 398E to 398G (and section 398C so far as relating to section 398E) have effect on the relevant day and during the relevant period.
- (3) “The relevant period” is the period—
  - (a) beginning with the day after the relevant day, and
  - (b) ending with the day on which there is next a relevant change in the relationship between A and a principal company of A falling within subsection (4) (or continuing indefinitely if there is not another such relevant change).
- (4) A relevant change in the relationship between A and a principal company of A falls within this subsection if, as a result of it, the (unadjusted) basic amount (see section 399) is (or, but for a further election, would be) treated as a receipt of the business of leasing plant or machinery carried on by A.
- (5) Where during the relevant period there is a relevant change in the relationship between A and a principal company of A but the relevant period is not brought to an end by it, for the purposes of the sales of lessors Chapters there is no qualifying change of ownership in relation to A as a result of the change in the relationship.

#### Textual Amendments

**F33** Words in s. 398A(1)(a) inserted (retrospective to 23.3.2011) by [Finance Act 2011 \(c. 11\), s. 54\(1\)\(2\)](#)

### 398B The election

- (1) The election under section 398A must state the date of the relevant day.
- (2) The election must be made—
  - (a) by notice to an officer of Revenue and Customs, and
  - (b) during the period of two years beginning with the relevant day.
- (3) The election is irrevocable.
- (4) All such assessments and adjustments of assessments are to be made as are necessary to give effect to the election.

*Status: Point in time view as at 26/06/2020.*

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### **398C Special treatment of A's trade or business that includes leasing**

- (1) Sections 398D and 398E make special provision about the trade or property business consisting of or including A's business of leasing plant or machinery.
- (2) In those sections “ the relevant activity ” means—
  - (a) if A's business of leasing plant or machinery constitutes or forms part of a trade, that trade, and
  - (b) if it forms part of a property business, that property business.

### **398D Restrictions on use of losses etc**

- (1) No loss may be deducted under—
  - (a) Chapter 2 of Part 4,
  - (b) section 62, or
  - (c) section 189,from so much of the total profits of A as are attributable to the carrying on of the relevant activity except to the extent that the loss or charge is attributable to the carrying on of the relevant activity.
- (2) Group relief is not to be given under Part 5 against so much of the total profits of A as are attributable to the carrying on of the relevant activity.

[ Group relief for carried-forward losses is not to be given under Part 5A against so  
<sup>F34</sup>(2A) much of the total profits of A as are attributable to the carrying on of the relevant activity.]

- (3) No deficit may be set off under section 461 of CTA 2009 (non-trading deficit from loan relationship) against profits attributable to the carrying on of the relevant activity except to the extent that the deficit is attributable to the carrying on of the relevant activity.
- (4) No loss may be set off under section 753 of CTA 2009 (non-trading loss on intangible fixed assets) against so much of the total profits of A as are attributable to the carrying on of the relevant activity except to the extent that the loss or charge is attributable to the carrying on of the relevant activity.
- (5) No deduction is to be allowed under section 1219 of CTA 2009 (expenses of management of investment business) from so much of the total profits of A as are attributable to the carrying on of the relevant activity except to the extent that the expenses concerned are attributable to the carrying on of the relevant activity.

<sup>F35</sup>(6) .....

<sup>F35</sup>(6A) .....

- (7) If A would otherwise be a tonnage tax company under Schedule 22 to FA 2000 (tonnage tax) it is to be treated as not being such a company.

#### **Textual Amendments**

**F34** S. 398D(2A) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 4 para. 165**

*Status: Point in time view as at 26/06/2020.*

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**F35** S. 398D(6)(6A) omitted (18.11.2015) (with effect in accordance with s. 36(3)-(5) of the amending Act) by virtue of Finance (No. 2) Act 2015 (c. 33), s. 36(2)(a)

### **398E Restriction on artificial losses or reductions in profits**

- (1) This section applies if any expenditure incurred by A in carrying on the relevant activity has an unallowable purpose.
- (2) In calculating the profits or losses of A for any accounting period for the purposes of corporation tax so much of the expenditure as, on a just and reasonable apportionment, is attributable to the unallowable purpose is to be left out of account.
- (3) Expenditure has an unallowable purpose if the main purpose, or one of the main purposes, of A in incurring it is to obtain a relevant tax advantage (“the unallowable purpose”).
- (4) A “relevant tax advantage” is—
  - (a) a reduction in the profits which, for the purposes of corporation tax, are attributable to the carrying on of the relevant activity by A,
  - (b) the creation of a loss which, for those purposes, is so attributable, or
  - (c) an increase in losses which, for those purposes, are so attributable.

### **398F Limit on availability of capital allowances to A**

- (1) Expenditure incurred by A in providing plant or machinery is not qualifying expenditure for the purposes of Part 2 of CAA 2001 if the expenditure is incurred on the acquisition or creation of an independent asset.
- (2) An asset is an “independent” asset if, in the normal course of business—
  - (a) it could be used individually (whether or not it could also be used in conjunction with another asset or other assets as a constituent part of a single asset consisting of more than one asset (a “combined asset”)), or
  - (b) it could be used (at different times) as a constituent part of different combined assets.

### **398G Transfers into and out of A**

- (1) Section 948 does not apply where A is the predecessor or the successor.

<sup>F36</sup>(2) .....

[<sup>F37</sup>(3) If any event occurs that requires A to bring the disposal value of plant or machinery into account under Part 2 of CAA 2001, that Part has effect as if the disposal value that A is required to bring into account were the higher of—

- (a) the disposal value determined in accordance with that Part, and
- (b) the ascribed value of the plant or machinery.

- (4) Section 265 of CAA 2001 (successions) is subject to this section. ]]

#### **Textual Amendments**

**F36** S. 398G(2) omitted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by virtue of Finance Act 2011 (c. 11), Sch. 6 para. 6(2)

*Status: Point in time view as at 26/06/2020.*

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**F37** S. 398G(3)(4) substituted for s. 398G(3) (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 6\(3\)](#)

### *The amount of the income*

#### **399 The amount of the income: the basic amount**

- (1) This section determines the amount of the income under section 383 when a qualifying change of ownership in relation to a company carrying on a business of leasing plant or machinery occurs on any day.
- (2) The amount of the income is found by—
  - (a) applying the formula in subsection (3) to give the basic amount, and
  - (b) making any adjustment in accordance with any of sections 404 to 406 to the basic amount.
- (3) The formula is—

$$PM - TWDV$$

- (4) For this purpose—
  - “ PM ” has the meaning given by sections 400 to 402, and
  - “ TWDV ” has the meaning given by section 403.
- (5) In those sections references to the relevant company and the relevant day are to the company and the day mentioned in subsection (1).

#### **400 “PM” in section 399**

- (1) For the purposes of this section and sections 401 and 402 references to plant or machinery, in the case of any company, include all plant or machinery, whether or not subject to a lease, except for plant or machinery within subsection (2).
- (2) Plant or machinery is within this subsection if—
  - (a) the company has not incurred expenditure on its provision that is qualifying expenditure for the purposes of Part 2 of CAA 2001,
  - (b) the company is a lessor of it under a long funding lease,
  - (c) as a result of section 67 of that Act (hire-purchase and similar contracts) it is treated for the purposes of that Part as owned by a person other than the company, or
  - (d) it is to be ignored as a result of section 407(2) (migration).
- (3) For the purposes of section 399, “PM” is the sum of—
  - (a) the amounts (if any) which would be shown in respect of plant or machinery in the appropriate balance sheet of the relevant company drawn up as at the start of the relevant day, and
  - (b) the amounts (if any) which would be shown in the appropriate balance sheet of the relevant company drawn up as at the end of the relevant day in respect of relevant transferred plant or machinery.

*Status: Point in time view as at 26/06/2020.*

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- (4) For the purposes of subsection (3)(b), plant or machinery is “relevant transferred plant or machinery” if an amount in respect of it would be shown in the appropriate balance sheet of an associated company drawn up as at the start of the relevant day.
- (5) This section is supplemented by section 401 and is subject to section 402 (“PM” where relevant company lessee under long funding lease etc ).

#### **401 Provisions supplementing section 400**

- (1) For the purposes of section 400 and this section the amounts shown in the appropriate balance sheet of any company in respect of any plant or machinery are—
  - (a) the amounts shown in that balance sheet as the net book value (or carrying amount) in respect of the plant or machinery, and
  - (b) the amounts shown in that balance sheet as the net investment in respect of finance leases of the plant or machinery.
- (2) If—
  - (a) any of the plant or machinery is a fixture in any land (see section 437(5)), and
  - (b) the amount which falls (or would fall) to be shown in an appropriate balance sheet as the net book value (or carrying amount) of the land includes (or would include) an amount in respect of the fixture,
 the amount of the net book value (or carrying amount) in respect of the fixture is determined on a just and reasonable basis.
- (3) If—
  - (a) any of the plant or machinery is subject to a finance lease (see section 437(4)), and
  - (b) any land or asset which is not plant or machinery is subject to that lease,
 the amount of the net investment in respect of the finance lease of that plant or machinery is determined on a just and reasonable basis.
- (4) In section 400 and this section any reference to any amount shown in the appropriate balance sheet of a company is to the amount which, on the assumptions in subsection (5), falls (or would fall) to be shown in a balance sheet of the company.
- (5) The assumptions are—
  - (a) that the balance sheet is drawn up in accordance with generally accepted accounting practice, and
  - (b) that, if the company acquired any plant or machinery in circumstances in which this paragraph applies, the plant or machinery had been acquired for an amount equal to its [<sup>F38</sup>ascribed value] as at the relevant day.
- (6) Paragraph (b) of subsection (5) applies if—
  - (a) the relevant day falls on or after 22 March 2006,
  - (b) the plant or machinery was acquired directly or indirectly from a person who was connected with the company when the acquisition took place, and
  - (c) either the acquisition took place on or after 5 December 2005 or the person from whom the plant or machinery was so acquired was also connected with the company on that date.

*Status: Point in time view as at 26/06/2020.*

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#### Textual Amendments

**F38** Words in s. 401(5)(b) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 7](#)

### 402 “PM” where relevant company lessee under long funding lease etc

- (1) Any amount included in the amounts mentioned in paragraph (a) or (b) of section 400(3) in respect of plant or machinery to which this section applies is to be deducted from the sum mentioned in that section.
- (2) But the [<sup>F39</sup>ascribed value] as at the relevant day of any plant or machinery to which this section applies is to be added to that sum or, if that sum is nil, is “PM”.
- (3) This section applies to plant or machinery if—
  - (a) condition A or B is met at the start of the relevant day, or
  - (b) the plant or machinery is acquired by the relevant company from an associated company on the relevant day and condition A or B is met at the end of that day.
- (4) Condition A is that the relevant company is the lessee of the plant or machinery under a long funding finance lease or a long funding operating lease.
- (5) Condition B is that the relevant company is treated as the owner of the plant or machinery under section 67 of CAA 2001 (hire purchase and similar contracts).

#### Textual Amendments

**F39** Words in s. 402(2) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 8](#)

### 403 “TWDV” in section 399

- (1) For the purposes of section 399, “TWDV” means the sum of—
  - (a) the total amount of unrelieved qualifying expenditure in single asset pools for the new chargeable period that is carried forward in the pools from the previous chargeable period under section 59 of CAA 2001,
  - (b) the total amount of unrelieved qualifying expenditure in class pools for the new chargeable period that is carried forward in the pools from the previous chargeable period under that section, and
  - (c) the amount of unrelieved qualifying expenditure in the main pool for the new chargeable period that is carried forward in the pool from the previous chargeable period under that section.
- (2) For the purposes of this section—
  - (a) “the new chargeable period” means the accounting period of the relevant company that begins on the day following the relevant day (see section 383(4)(b)), and
  - <sup>F40</sup>(b) in calculating the amounts of unrelieved qualifying expenditure mentioned in subsection (1)(a) to (c), any part of those amounts that is relevant new expenditure is to be left out of account.]

*Status: Point in time view as at 26/06/2020.*

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[<sup>F41</sup>(3) Relevant new expenditure” means—

- (a) expenditure attributable to plant or machinery acquired by the relevant company on the relevant day except for plant or machinery acquired on that day from an associated company, and
  - (b) expenditure incurred on the relevant day but attributable to plant or machinery acquired by the relevant company before that day.
- (4) In subsection (3)—
- (a) “acquired ” includes brought into use or made available for use for the first time for the purposes of the business, and
  - (b) a reference to anything acquired or incurred includes anything treated as acquired or treated as incurred.]

#### Textual Amendments

- F40** S. 403(2)(b) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 9\(2\)](#)
- F41** S. 403(3)(4) inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 9\(3\)](#)

#### 404 Amount to be nil if basic amount negative

If the basic amount given by the formula in section 399(3) is a negative amount, the amount is taken instead to be nil.

#### 405 Adjustment to the basic amount: qualifying 75% subsidiaries

- (1) This section applies if—
- (a) the qualifying change of ownership occurs on any day as a result of section 393 (qualifying 75% subsidiaries),
  - (b) the change occurs by reference to a company (“A”) ceasing to be a qualifying 75% subsidiary of another company (“B”) on that day, and
  - (c) on that day A meets one of the conditions in subsection (2).
- (2) The conditions are—
- (a) that A becomes owned by a consortium of which B is a member, or
  - (b) that A becomes a qualifying [<sup>F42</sup>75%] subsidiary of a company owned by a consortium of which B is a member.
- (3) The basic amount is adjusted so that the amount of the income is limited to the appropriate percentage of the basic amount.
- (4) The appropriate percentage is found by subtracting the ownership percentage at the end of the day from 100%.
- (5) For this purpose “the ownership percentage” is whichever is the lowest of the following percentages—
- (a) the percentage of the ordinary share capital of A that is beneficially owned by B,
  - (b) the percentage to which B is beneficially entitled of any profits available for distribution to equity holders of A, and



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- (c) the percentage to which B would be beneficially entitled of any assets of A available for distribution to its equity holders on a winding up.
- (6) But if A becomes a qualifying [<sup>F43</sup>75%] subsidiary of a company, subsection (5) is to be read as if references to that company were substituted for references to A.

#### Textual Amendments

- F42** Figure in s. 405(2)(b) substituted (with effect in accordance with s. 29(8) of the amending Act) by [Finance Act 2010 \(c. 13\), s. 29\(5\)](#)
- F43** Figure in s. 405(6) substituted (with effect in accordance with s. 29(8) of the amending Act) by [Finance Act 2010 \(c. 13\), s. 29\(5\)](#)

### 406 Adjustment to the basic amount: consortium relationships

- (1) This section applies if the qualifying change of ownership occurs as a result of section 394 (consortium relationships).
- (2) In a case where that change arises only because the ownership proportion at the end of the day on which the change occurs is less than the ownership proportion at the start of the day, the amount of the income is limited to the appropriate proportion of the basic amount.
- (3) The appropriate proportion is found by subtracting the ownership proportion at the end of the day from the ownership proportion at the start of the day.
- (4) In any other case, the amount of the income is limited to the ownership proportion at the start of the day on which the change occurs of the basic amount.
- (5) In this section “ the ownership proportion ” has the same meaning as in section 394 (see section 394(3) and (4)).

### 407 Migration

- (1) This section applies if on any day (“ the relevant day ”)—
- (a) a company begins to be within the charge to corporation tax in respect of a business of leasing plant or machinery which it carries on otherwise than in partnership, and
- (b) a qualifying change of ownership in relation to the company occurs.
- (2) For the purposes of this Chapter, any plant or machinery is to be ignored in calculating the amount of the income treated as received on the relevant day if an amount would be shown in respect of it in a balance sheet of the company drawn up immediately before that day in accordance with generally accepted accounting practice.

*“Associated company”*

### 408 “Associated company”

- (1) This section gives the meaning of “ associated company ” for the purposes of this Chapter.

*Status: Point in time view as at 26/06/2020.*

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- (2) References to an associated company in any provision other than subsection (6)(b) are to a company which is an associated company of the company that is the relevant company for the purposes of that provision on the day that is the relevant day for those purposes.
- (3) A company is an “associated company” of another company on any day if, at the start of that day—
  - (a) one of the two has control of the other, or
  - (b) both are under the control of the same person or persons,
- (4) Section 450 (meaning of “control” for the purposes of Part 10 (close companies)) applies for the purposes of subsection (3).
- (5) Subsection (6) applies if at the start of any day a company (“the consortium company”)—
  - (a) is owned by a consortium, or
  - (b) is a qualifying [<sup>F44</sup>75%] subsidiary of a company owned by a consortium.
- (6) On that day the following companies are also associated companies of the consortium company—
  - (a) any relevant member of the consortium on that day, and
  - (b) any company which is an associated company of any relevant member of the consortium on that day.
- (7) For the purposes of subsection (6) a member of the consortium is a “relevant” member on any day if—
  - (a) it is a member of the consortium at the start of the day,
  - (b) one or more qualifying changes of ownership occur in relation to the consortium company on that day, and
  - (c) any of those changes occur in a case where the member of the consortium is regarded as “E” for the purposes of section 394 (consortium relationships).

#### Textual Amendments

**F44** Figure in s. 408(5)(b) substituted (with effect in accordance with s. 29(8) of the amending Act) by Finance Act 2010 (c. 13), s. 29(6)

## CHAPTER 4

### SALES OF LESSORS: LEASING BUSINESS CARRIED ON BY A COMPANY IN PARTNERSHIP

#### *Introduction*

#### 409 Introduction to Chapter

- (1) This Chapter applies if, in the case of a company carrying on a business of leasing plant or machinery in partnership with other persons—
  - (a) there is a qualifying change in the company's interest in the business, (see sections 415 and 416), or

*Status: Point in time view as at 26/06/2020.*

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- (b) there is a qualifying change of ownership in relation to the company (see sections 392 to 398).
- (2) Sections 417 to 424 apply in the case mentioned in subsection (1)(a).
- (3) Sections 425 to 429 apply in the case mentioned in subsection (1)(b).
- (4) Sections 410 to 414 determine for the purposes of this Chapter whether on any day a business carried on by a company in partnership with other persons is a business of leasing plant or machinery.
- (5) In sections 410 to 414—
  - (a) that day is referred to as “the relevant day”,
  - (b) that company is referred to as “the partner company”, and
  - (c) that partnership is referred to as “the partnership”.
- (6) Elsewhere in this Chapter references to the partner company are to the company referred to in subsection (1)(a) or, as the case may be, subsection (1)(b).

*“Business of leasing plant or machinery”*

#### **410 “Business of leasing plant or machinery”**

- (1) A business carried on by the partnership is a business of leasing plant or machinery on the relevant day if condition A or B is met.
- (2) Condition A is that at least half of the relevant plant or machinery value relates to [<sup>F45</sup> plant or machinery falling within subsection (6)].
- (3) Subsection (2) is supplemented by section 411.
- [<sup>F46</sup>(4) Condition B is that at least half of the partnership's income in the past 12 months derives from plant or machinery falling within subsection (6).]
- (5) Subsection (4) is supplemented by section 414.
- [<sup>F47</sup>(6) Plant or machinery falls within this subsection if—
  - (a) it is or at any time in the past 12 months has been leased out by the partnership or a qualifying associate,
  - (b) the lease under which it is or has been leased out is a plant or machinery lease but not an excluded lease of background plant or machinery for a building (see section 437(3)), and
  - (c) if the plant or machinery satisfies paragraph (a) only because it is or has been leased out by a qualifying associate, the lessee under the lease is or was someone other than the partnership.
- (7) For the purposes of subsection (6)—
  - (a) plant or machinery is “leased out” by a person if it is subject to a plant or machinery lease under which that person is a lessor,
  - (b) “associate” means a person who is a partner in the partnership or connected with a partner in the partnership (see also subsection (8)), and
  - (c) a person is a “qualifying associate” if the person is an associate at the start of the relevant day or at any earlier time in the past 12 months (whether or not a time when the plant or machinery was leased out by the person).

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- (8) In relation to a corporate partner who is owned by a consortium or is a qualifying 75% subsidiary of a company owned by a consortium, the reference in subsection (7)(b) to a person connected with a partner also includes—
- (a) any member of the consortium, and
  - (b) any person connected with such a member.
- (9) A reference in this section to the past 12 months is to the period of 12 months ending with the relevant day.]

#### Textual Amendments

- F45** Words in s. 410(2) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **Sch. 6 para. 11(2)**
- F46** S. 410(4) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **Sch. 6 para. 11(3)**
- F47** S. 410(6)-(9) substituted for s. 410(6)(7) (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **Sch. 6 para. 11(4)**

#### 411 “Relevant plant or machinery value” for condition A in section 410

- (1) This section applies for the purposes of condition A in section 410.
- (2) The relevant plant or machinery value is the sum of the amounts in subsection (3), but subject to section 413 (relevant plant or machinery value where partnership lessee under long funding lease).
- (3) The amounts are—
  - (a) the amounts (if any) that would be shown in respect of plant or machinery in the appropriate balance sheet of the partnership drawn up as at the start of the relevant day, and
  - (b) the amounts (if any) that would be shown in the appropriate balance sheet of the partnership drawn up as at the end of the relevant day in respect of relevant transferred plant or machinery.
- (4) For the purposes of subsection (3)(b) plant or machinery is “relevant transferred plant or machinery” if an amount in respect of it would be shown in the appropriate balance sheet of any company mentioned in subsection (5) drawn up as at the start of the relevant day.
- (5) Those companies are—
  - (a) the partner company,
  - (b) any company which is an associated company of the partner company on the relevant day (see section 430),
  - (c) any other corporate partner in relation to whose interest in the business there is a qualifying change on the relevant day,
  - (d) any other corporate partner in relation to which there is a qualifying change of ownership on the relevant day, and
  - (e) any company which is an associated company of any other corporate partner mentioned in paragraph (c) or (d) on the relevant day.
- (6) For the purposes of subsection (5) “any other corporate partner” means a company which—

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- (a) carries on the business at the start of the relevant day, and
- (b) is within the charge to corporation tax in respect of the business.

(7) This section is supplemented by section 412.

#### **412 Provision supplementing section 411**

- (1) For the purposes of section 411 and this section the amounts shown in the appropriate balance sheet of the partnership or, as the case may be, any company in respect of any plant or machinery are—
- (a) the amounts shown in that balance sheet as the net book value (or carrying amount) in respect of the plant or machinery, and
  - (b) the amounts shown in that balance sheet as the net investment in respect of finance leases of the plant or machinery.
- (2) If—
- (a) any of the plant or machinery is a fixture in any land (see section 437(5)), and
  - (b) the amount which falls (or would fall) to be shown in an appropriate balance sheet as the net book value (or carrying amount) of the land includes (or would include) an amount in respect of the fixture,
- the amount of the net book value (or carrying amount) in respect of the fixture is determined on a just and reasonable basis.
- (3) If—
- (a) any of the plant or machinery is subject to a finance lease (see section 437(4)), and
  - (b) any land or other asset which is not plant or machinery is subject to that lease,
- the amount of the net investment in respect of the finance lease of that plant or machinery is determined on a just and reasonable basis.
- (4) In section 411 and this section any reference to any amount shown in the appropriate balance sheet of the partnership or a company is to the amount which, on the assumptions in subsection (5), falls (or would fall) to be shown in a balance sheet of the partnership or, as the case may be, the company.
- (5) The assumptions are that—
- (a) the balance sheet is drawn up in accordance with generally accepted accounting practice, and
  - (b) if the partnership acquired any plant or machinery in circumstances in which this paragraph applies, the plant or machinery had been acquired for an amount equal to its [<sup>F48</sup>ascribed value] as at the relevant day.
- (6) Paragraph (b) of subsection (5) applies if—
- (a) the relevant day falls on or after 22 March 2006,
  - (b) the plant or machinery was acquired directly or indirectly from a person who was connected with the partnership when the acquisition took place, and
  - (c) either the acquisition took place on or after 5 December 2005 or the person from whom the plant or machinery was so acquired was also connected with the partnership on that date.

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#### Textual Amendments

**F48** Words in s. 412(5)(b) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 12](#)

### 413 Relevant plant or machinery value where partnership lessee under long funding lease etc

- (1) Any amount included in the amounts mentioned in section 411(2) in respect of plant or machinery to which this section applies is to be deducted from the sum mentioned in that section.
- (2) But the [<sup>F49</sup>ascribed value] as at the relevant day of any plant or machinery to which this section applies is to be added to that sum or, if that sum is nil, is the relevant plant or machinery value.
- (3) This section applies to plant or machinery if—
  - (a) condition A or B is met at the start of the relevant day, or
  - (b) the plant or machinery is acquired by the partnership from any company mentioned in section 411(5) on the relevant day and condition A or B is met at the end of that day.
- (4) Condition A is that the partnership is the lessee of the plant or machinery under a long funding finance lease or a long funding operating lease.
- (5) Condition B is that the partnership is treated as the owner of the plant or machinery under section 67 of CAA 2001 (hire purchase and similar contracts).

#### Textual Amendments

**F49** Words in s. 413(2) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 13](#)

### 414 Partnership's income for condition B in section 410

- (1) This section applies for the purposes of condition B in section 410.
- (2) The reference to the partnership's income is to its income as calculated for corporation tax purposes.
- (3) Any apportionment necessary to determine the amount of the partnership's income attributable to the period of 12 months ending with the relevant day is to be made on a time basis.
- (4) But—
  - (a) that basis does not apply if it would work in an unjust or unreasonable way in relation to any person, and
  - (b) in that case the apportionment is to be made instead on a just and reasonable basis.
- (5) The proportion of the income that derives from [<sup>F50</sup>plant or machinery falling within section 410(6)] is to be determined on a just and reasonable basis.

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### Textual Amendments

**F50** Words in s. 414(5) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 6 para. 14**

*“Qualifying change” in company's interest in a business*

#### **415 “Qualifying change” in company's interest in a business**

- (1) For the purposes of the sales of lessors Chapters there is a qualifying change in a company's interest in a business on any day if its relevant percentage share at the end of the day is less than its relevant percentage share at the start of the day.
- (2) In this section “relevant percentage share”, in relation to a company's interest in a business, means its percentage share in the profits or loss of the business (determined in accordance with section 416).
- (3) For the purposes of this section any reference to a company's share in the profits or loss of the business includes a nil share (whether as a result of the dissolution of the partnership or otherwise).

#### **416 Determining the percentage share in the profits or loss of business**

- (1) For the purposes of this Chapter a company's percentage share in the profits or loss of a business at any time is determined on a just and reasonable basis.
- (2) In making that determination, regard must be had, in particular, to any matter that would be taken into account in determining under section 1262 of CTA 2009 (but without regard to sections 1263 and 1264 of that Act) the company's share at that time in the profits or loss of the business.

*Qualifying changes in partner company's interest in business*

#### **417 Partner company's income and other companies' matching expense**

- (1) This section applies if on any day (“the relevant day”)—
  - (a) the partner company carries on a business of leasing plant or machinery in partnership with other persons,
  - (b) the partner company is within the charge to corporation tax in respect of the business, and
  - (c) there is a qualifying change in the partner company's interest in the business on the relevant day (see sections 415 and 416).
- (2) On the relevant day—
  - (a) the partner company is treated as receiving an amount of income, and
  - (b) any other company which carries on the business on that day and which is within the charge to corporation tax in respect of the business is treated as incurring an expense.
- (3) The income—

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- (a) is treated as a receipt of the partner company's notional business (see subsection (6)), and
  - (b) is brought into account in calculating for corporation tax purposes the profits of that business for the accounting period in which it is treated as received.
- (4) Except where subsection (5) applies, the expense—
- (a) is treated as an expense of the other company's notional business, and
  - (b) is allowed as a deduction in calculating for corporation tax purposes the profits of that business for the accounting period in which it is treated as incurred.
- (5) If at the end of the relevant day the other company is the only person carrying on the business, the expense—
- (a) is treated as an expense incurred by the other company in its carrying on of the business (at a time when it is the only person carrying it on), and
  - (b) is allowed as a deduction in calculating for corporation tax purposes the profits of the business for the accounting period in which it is treated as incurred.
- (6) In this Chapter a company's "notional business" means the business the profits or losses of which are determined, in relation to the company, under section 1259 of CTA 2009 (calculation of firm's profits and losses).
- (7) This section is supplemented by sections 418 and 419.
- (8) This section is subject to section 420 (exception: companies carrying on business ceasing to share in its profits).

#### **418 Amount of income and expense**

- (1) The amount of the income under section 417 is calculated in accordance with sections 421 to 423.
- (2) The amount of the expense of the other company under section 417 is calculated in accordance with section 424.

#### **419 Relief for expense otherwise giving rise to carried forward loss**

- (1) This section applies if—
  - (a) a company is treated under section 417(5) as incurring an expense in an accounting period of the company ("period 1"),
  - (b) the company makes a loss in period 1 or a later accounting period,
  - (c) apart from this section some or all of that loss ("the carried forward loss") would be carried forward to the next accounting period of the company after the accounting period in which the loss is made ("the subsequent period"),
  - (d) some or all of the carried forward loss ("the derived loss") derives from—
    - (i) the expense under section 417(5), or
    - (ii) an expense treated as arising under subsection (2) and allowed as a deduction for the accounting period in which the loss is made, and
  - (e) the subsequent period starts within the period of 5 years beginning with the relevant day within the meaning of section 417 and does not start as a result of section 383 or 425.
- (2) Instead of being so carried forward, the derived loss is to be treated for corporation tax purposes as giving rise to an expense of an amount equal to—



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$$DL + \frac{DL \times D \times R}{365}$$

where—

DL is the derived loss,

D is the number of days in the accounting period in which the loss is made, and

R is the percentage rate applicable to section 826 of ICTA under section 178 of FA 1989.

- (3) The amount of the expense under this section is allowed as a deduction in calculating for corporation tax purposes the profits of the business for the subsequent period.
- (4) For the purpose of determining how much of a loss derives from an expense under section 417(5) or an expense within subsection (1)(d)(ii), the loss is to be calculated on the basis that that expense is the final amount to be deducted.

#### **420 Exception: companies carrying on business ceasing to share in its profits**

- (1) Section 417 does not apply if conditions A, B and C are met.
- (2) Condition A is that at the end of the relevant day none of the companies by which the business was carried on any longer has any share in the profits or loss of the business.
- (3) Condition B is that, in consequence of what happens on the relevant day, the disposal value of all the plant and machinery that was used for the purposes of the business and in respect of which capital allowances have been claimed is to be brought into account under section 61 of CAA 2001.
- (4) Condition C is that the disposal value to be brought into account in relation to all the plant or machinery is the price that the plant or machinery would fetch in the open market on that day.

#### **421 The amount of the income: the basic amount**

- (1) This section determines the amount of the income under section 417 when a qualifying change in the interest of the partner company in a business of leasing plant or machinery occurs on any day (“the relevant day”).
- (2) The amount of the income is found by—
  - (a) applying the formula in subsection (3) to give the basic amount, and
  - (b) making such adjustment to the basic amount as is required in accordance with section 422 or 423.
- (3) The formula is—

$$PM - TWDV$$

- (4) In this section “PM” has the meaning given by section 400, but—
  - (a) reading any reference in that section to the relevant company as a reference to the partnership, and
  - (b) reading the reference in section 400(4) to an associated company as a reference to a qualifying company (see subsection (7)).

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- (5) In this section “TWDV” means the sum of—
- (a) the total amount of unrelieved qualifying expenditure in single asset pools for the new chargeable period that would be carried forward in the pools from the old chargeable period under section 59 of CAA 2001 (unrelieved qualifying expenditure),
  - (b) the total amount of unrelieved qualifying expenditure in class pools for the new chargeable period that would be carried forward in the pools from the old chargeable period under that section, and
  - (c) the amount of unrelieved qualifying expenditure in the main pool for the new chargeable period that would be carried forward in the pool from the old chargeable period under that section.
- (6) For the purposes of subsection (5)—
- (a) it is to be assumed that the chargeable period (within the meaning of CAA 2001) of the partnership ends on the relevant day (“the old chargeable period”) and a new one begins on the following day (“the new chargeable period”), and
  - [<sup>F51</sup>(b) in calculating the amounts of unrelieved qualifying expenditure mentioned in subsection (5)(a) to (c), any part of those amounts that is relevant new expenditure is to be left out of account.]
- [<sup>F52</sup>(6A) Relevant new expenditure” means—
- (a) expenditure attributable to plant or machinery acquired by the partnership on the relevant day except for plant or machinery acquired on that day from a qualifying company, and
  - (b) expenditure incurred on the relevant day but attributable to plant or machinery acquired by the partnership before that day.
- (6B) In subsection (6A)—
- (a) “acquired ” includes brought into use or made available for use for the first time for the purposes of the business, and
  - (b) a reference to anything acquired or incurred includes anything treated as acquired or treated as incurred.]
- (7) In this section “qualifying company” means each of the following—
- (a) the partner company,
  - (b) any company which is an associated company of the partner company on the relevant day,
  - (c) any other corporate partner in relation to whose interest in the business there is a qualifying change on the relevant day,
  - (d) any other corporate partner in relation to which there is a qualifying change of ownership on the relevant day, and
  - (e) any company which is an associated company of any other corporate partner mentioned in paragraph (c) or (d) on the relevant day.
- (8) For the purposes of subsection (7) “any other corporate partner” means a company which—
- (a) carries on the business at the start of the relevant day, and
  - (b) is within the charge to corporation tax in respect of the business.

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### Textual Amendments

- F51** S. 421(6)(b) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 15\(2\)](#)
- F52** S. 421(6A)(6B) inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 15\(3\)](#)

## 422 Amount to be nil if basic amount negative

If the basic amount given by the formula in section 421(3) is a negative amount, the amount is taken instead to be nil.

## 423 Adjustment to the basic amount

- (1) The amount of the company's income under section 417 is limited to the appropriate percentage of the basic amount.
- (2) The appropriate percentage is found by subtracting the company's relevant percentage share at the end of the day on which it is treated as receiving the income from its relevant percentage share at the start of the day.
- (3) In this section “relevant percentage share” has the same meaning as it has for the purposes of section 415 (see subsection (2) of that section).

## 424 The amount of expense

- (1) This section applies if, as a result of a qualifying change in the partner company's interest in a business on any day—
  - (a) the company is treated as receiving an amount of income under section 417 on that day,
  - (b) any other company is treated as incurring an expense under that section on that day,
  - (c) the other company's percentage share in the profits or loss of the business is greater at the end than at the start of that day, and
  - (d) the increase (or any part of the increase) is wholly attributable to the change in the partner company's interest in the business.
- (2) Except where subsection (4) applies, the amount of the expense of the other company is limited to the appropriate percentage of the amount of the income.
- (3) The appropriate percentage is—

$$\frac{\text{OCI}}{\text{PCD}}$$

where—

OCI is the increase in the other company's percentage share in the profits or loss of the business that is wholly attributable to the change in the partner company's interest in the business, and

PCD is the decrease in the partner company's percentage share in the profits or loss of the business.

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- (4) If section 417(5) applies (business carried on by the other company alone), the amount of the expense of the other company is equal to the amount of the income.
- (5) For the purposes of this section any reference to an increase in the other company's percentage share in any profits or loss of the business includes an increase from a nil share (whether as a result of its becoming a partner or otherwise).

*Qualifying changes of ownership in relation to partner company*

**425 Partner company's income and matching expense in different accounting periods**

- (1) This section applies if on any day (“the relevant day”)—
  - (a) a company carries on a business of leasing plant or machinery in partnership with other persons (see sections 410 to 414),
  - (b) the company is within the charge to corporation tax in respect of the business, and
  - (c) there is a qualifying change of ownership in relation to the company.
- (2) On the relevant day—
  - (a) the company is treated as receiving an amount of income, and
  - (b) the accounting period of the company ends.
- (3) The income—
  - (a) is treated as a receipt of the company's notional business (see section 417(6)), and
  - (b) is brought into account in calculating for corporation tax purposes the profits of that business for that accounting period.
- (4) On the day following the relevant day—
  - (a) the company is treated as incurring an expense, and
  - (b) a new accounting period of the company begins.
- (5) The expense—
  - (a) is treated as an expense of the company's notional business, and
  - (b) is allowed as a deduction in calculating for corporation tax purposes the profits of that business for that new accounting period.
- (6) This section is supplemented by sections 426 to 428.

**426 Amount of income and expense**

- (1) The amount of the income under section 425 is calculated in accordance with section 429.
- (2) The amount of the expense under section 425 is the same as the amount of the income.

**427 [F53] No carry back of loss against the income**

- (1) This section applies if the notional business carried on by the company is a trade carried on wholly or partly in the United Kingdom the profits of which are chargeable to corporation tax under Chapter 2 of Part 3 of CTA 2009 (trading income).

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- [<sup>F54</sup>(2) No part of a loss may be deducted under section 37(3)(b) (relief for trade losses against total profits of earlier accounting periods) [<sup>F55</sup>or section 45F (relief for terminal trade losses)] from so much of the company's total profits as derive from the income.
- (3) For the purpose of determining how much of those profits derive from the income, those profits are to be calculated on the basis that the income is the final amount to be added.]

#### Textual Amendments

- F53** Words in s. 427 heading substituted (with effect in accordance with s. 24(9) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(6\)\(b\)](#)
- F54** S. 427(2)(3) substituted (with effect in accordance with s. 24(9) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 24\(6\)\(a\)](#)
- F55** Words in s. 427(2) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 4 para. 166](#)

### 428 Relief for expense otherwise giving rise to carried forward loss

- (1) This section applies if—
- there is a qualifying change of ownership in relation to a company on any day (“the relevant day”),
  - on the following day the company is treated under section 425 as incurring an expense of a business and an accounting period of the company (“period 1”) begins,
  - the company makes a loss in period 1 or a later accounting period,
  - apart from this section some or all of that loss (“the carried forward loss”) would be carried forward to the next accounting period of the company after the accounting period in which the loss is made (“the subsequent period”),
  - some or all of the carried forward loss (“the derived loss”) derives from—
    - the expense under section 425, or
    - an expense treated as arising under subsection (2) and allowed as a deduction for the accounting period in which the loss is made, and
  - the subsequent period starts within the period of 5 years beginning immediately after the relevant day and does not start as a result of section 383 or 425.
- (2) Instead of being so carried forward, the derived loss is to be treated for corporation tax purposes as giving rise to an expense of an amount equal to—

$$DL + \frac{DL \times D \times R}{365}$$

where—

DL is the derived loss,

D is the number of days in the accounting period in which the loss is made, and

R is the percentage rate applicable to section 826 of ICTA under section 178 of FA 1989.

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- (3) The amount of the expense under this section is allowed as a deduction in calculating for corporation tax purposes the profits of the business for the subsequent period.
- (4) For the purpose of determining how much of the carried forward loss derives from the expense under section 425 or an expense within subsection (1)(e)(ii), the loss is to be calculated on the basis that that expense is the final amount to be deducted.

#### **429 The amount of the income**

- (1) This section determines the amount of the income under section 425 when a qualifying change of ownership in relation to a company carrying on a business of leasing plant or machinery in partnership with other persons occurs on any day (“the relevant day”).
- (2) The amount of the income is found by first—
  - (a) applying the formula in section 421(3) to give the basic amount (as if the company were “the partner company” mentioned in section 421), and
  - (b) making any adjustment in accordance with any of sections 404 to 406 to the basic amount.
- (3) The amount is then limited to the appropriate percentage of the amount given as a result of subsection (2).
- (4) If there is no qualifying change in the company's interest in the business on the relevant day, the appropriate percentage is the percentage share of the company in the profits or loss of the business on the relevant day.
- (5) If there is a qualifying change in the company's interest in the business on the relevant day, the appropriate percentage is the percentage share of the company in the profits or loss of the business at the end of the relevant day.

#### *Interpretation*

#### **430 “Associated company”**

- (1) This section gives the meaning of “associated company” for the purposes of this Chapter.
- (2) A company is an “associated company” of another company on any day if, at the start of that day—
  - (a) one of the two has control of the other, or
  - (b) both are under the control of the same person or persons.
- (3) Section 450 (meaning of “control” for the purposes of Part 10 (close companies)) applies for the purposes of subsection (2).
- (4) Subsections (5) and (6) apply if, at the start of any day, a company (“the consortium company”)—
  - (a) is owned by a consortium, or
  - (b) is a qualifying [<sup>F56</sup>75%] subsidiary of a company owned by a consortium.
- (5) If there is any qualifying change in the consortium company's interest in a business on that day, references to an associated company of the consortium company on that day include—

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- (a) any member of the consortium at the start of that day, and
  - (b) any company which is an associated company of any such member on that day.
- (6) If there is any qualifying change of ownership in relation to the consortium company on that day, but there is no qualifying change in its interest in a business on that day, references to an associated company of the consortium company on that day include—
- (a) any relevant member of the consortium on that day, and
  - (b) any company which is an associated company of any relevant member of the consortium on that day.
- (7) For the purposes of subsection (6) a member of the consortium is a “relevant” member on the day on which the qualifying change of ownership occurs if—
- (a) it is a member of the consortium at the start of the day, and
  - (b) the change is a relevant change within section 394(2), (6) or (8) (consortium relationships) in relation to which the member is regarded as “E” for the purposes of section 394.

#### Textual Amendments

**F56** Figure in s. 430(4)(b) substituted (with effect in accordance with s. 29(8) of the amending Act) by Finance Act 2010 (c. 13), s. 29(6)

#### 431 “Profits” and “loss”

- (1) In this Chapter “profits” does not include chargeable gains.
- (2) References in this Chapter to “loss” are to be read accordingly.

### CHAPTER 5

#### SALES OF LESSORS: ANTI-AVOIDANCE PROVISIONS

#### 432 Restrictions on relief for Chapter 3 or 4 expenses: introduction

- (1) [<sup>F57</sup>Sections 433 and 433A apply] if—
  - (a) a company is treated as incurring an expense under any provision of Chapter 3 or 4,
  - (b) the expense arises directly or indirectly in consequence of, or otherwise in connection with, any arrangements,
  - (c) the main purpose, or one of the main purposes, of the arrangements is to secure that the company is treated as incurring the expense, and
  - (d) the company makes a loss that wholly or partly derives from the expense.

[<sup>F58</sup>(1A) For the purposes of subsection (1), an expense is to be disregarded if, and to the extent that, section 730D(2) (disallowance of deductible amounts: profit transfers) applies to it.]

- (2) The restrictions in section 433 apply in respect of so much of the loss as derives from the expense (in that section [<sup>F59</sup>and section 433A] referred to as “the restricted loss amount”).

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- (3) For the purpose of determining how much of a loss derives from the expense, the loss is to be calculated on the basis that the expense is the final amount to be deducted.
- (4) In this section “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions—
  - (a) whether or not legally enforceable, and
  - (b) whether or not the company is a party to the arrangements.

#### Textual Amendments

- F57** Words in s. 432(1) substituted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(2\)\(a\)](#)
- F58** S. 432(1A) inserted (with effect in accordance with Sch. 14 para. 3 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 14 para. 2\(2\)](#)
- F59** Words in s. 432(2) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(2\)\(b\)](#)

### 433 Restrictions applying to the restricted loss amount

- (1) The restrictions in subsections (2), (5) and (6) apply to the restricted loss amount.
- (2) Relief is not to be given to the company under any provision specified in subsection (3) in respect of the restricted loss amount, except by way of set off against any relevant leasing income (see subsection (4)).
- (3) Those provisions are—
  - (a) section 45 (carry forward of [<sup>F60</sup>pre-1 April 2017] trade loss against subsequent trade profits),
  - [<sup>F61</sup>(a)] section 45B (carry forward of post-1 April 2017 trade loss against subsequent trade profits),]
  - (b) section 62 (relief for losses made in UK property business),
  - (c) section 63 (company with investment business ceasing to carry on UK property business),
  - (d) section 66 (relief for losses made in overseas property business), and
  - (e) section 91 (relief for losses from miscellaneous transactions).
- (4) In subsection (2) “relevant leasing income” means any income deriving from any plant or machinery lease which—
  - (a) is not an excluded lease of background plant or machinery for a building (see section 437(3)), and
  - (b) is entered into before the day on which the company is treated as incurring the expense mentioned in section 432(1)(a).
- (5) If the business carried on by the company is a trade, relief is not to be given to the company under section 37 (relief for trade losses against total profits) [<sup>F62</sup>or section 45A (carry forward of trade loss against total profits)] in respect of the restricted loss amount.
- (6) The restricted loss amount is not available for set off [<sup>F63</sup>—
  - (a)] by way of group relief in accordance with Chapter 2 of Part 5 (surrender of company's losses etc for an accounting period) [<sup>F64</sup>, or



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- (b) by way of group relief for carried-forward losses in accordance with Chapter 2 of Part 5A (surrender of company's carried forward losses)]

#### Textual Amendments

- F60** Words in s. 433(3)(a) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(3\)\(a\)\(i\)](#)
- F61** S. 433(3)(ab) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(3\)\(a\)\(ii\)](#)
- F62** Words in s. 433(5) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(3\)\(b\)](#)
- F63** Words in s. 433(6) renumbered as s. 433(6)(a) (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(3\)\(c\)\(i\)](#)
- F64** S. 433(6)(b) and word inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(3\)\(c\)\(ii\)](#)

#### [<sup>F65</sup>433A Restrictions not applying to the restricted loss amount

- (1) Any deduction made under section 45 or 45B in respect of the restricted loss amount is to be ignored for the purposes of the restriction in section 269ZB (restriction on sum of deductions from trading profits).
- (2) Any deduction made under section 62 or 63 in respect of the restricted loss amount is to be ignored for the purposes of the restriction in section 269ZD (restriction on sum of deductions from total profits).]

#### Textual Amendments

- F65** [S. 433A](#) inserted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 4 para. 167\(4\)](#)

#### 434 Introduction to sections 435 and 436

- (1) Sections 435 and 436 apply if a question arises as to the application of Chapter 3 or 4.
- (2) For the purposes of this section and sections 435 and 436 “a question as to the application of Chapter 3 or 4” means [<sup>F66</sup>question A, B or C].
- (3) Question A is whether any company carries on a business of leasing plant or machinery (whether alone or in partnership) for the purposes of any provision of the sales of lessors Chapters.
- (4) Question B is the question of the amount (if any) of any income or expense which any company is treated as receiving or incurring under any provision of the sales of lessors Chapters.
- [<sup>F67</sup>(5) Question C is the question of the amount of any disposal value to be substituted by section 398G(3).]

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### Textual Amendments

- F66** Words in s. 434(2) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 17\(2\)](#)
- F67** S. 434(5) inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 17\(3\)](#)

## 435 Disregard of increases and decreases [<sup>F68</sup>in certain amounts]

(1) This section applies if—

- [<sup>F69</sup>(a) an amount mentioned in subsection (1A) is to be ascertained for the purpose of determining a question as to the application of Chapter 3 or 4,]
- (b) apart from this section, there would be a reduction or increase in any such amount,
- (c) the reduction or increase arises directly or indirectly in consequence of, or otherwise in connection with, any arrangements, and
- (d) the main purpose, or one of the main purposes, of the arrangements is to secure that there is a relevant tax advantage.

[<sup>F70</sup>(1A) The amounts are—

- (a) the relevant plant or machinery value,
- (b) the value of plant or machinery falling within section 387(7) or 410(6),
- (c) the relevant company's or partnership's income in the period of 12 months ending with the relevant day,
- (d) the amount of PM,
- (e) the amount of TWDV,
- (f) the amount of any disposal value to be substituted by section 398G(3), and
- (g) any underlying amount required to calculate or verify an amount mentioned in any of the preceding paragraphs.]

(2) There is a relevant tax advantage if (apart from this section)—

- (a) any company would not be regarded for the purposes of any provision of Chapter 3 or 4 as carrying on a business of leasing plant or machinery (whether alone or in partnership),
- (b) the amount of any income which any company is treated as receiving under any such provision would be reduced, <sup>F71</sup>...
- (c) the amount of any expense which any company is treated as incurring under any such provision would be increased [<sup>F72</sup>, or
- (d) the amount of any disposal value to be substituted by section 398G(3) would be reduced.]

(3) For the purpose of determining the question as to the application of Chapter 3 or 4, the reduction or increase in the amount [<sup>F73</sup>to be ascertained] must be ignored.

(4) In this section—

“arrangements” includes any agreement, understanding, scheme, transaction or series of transactions—

- (a) whether or not legally enforceable, and
- (b) whether or not the company for which the relevant tax advantage is intended to be secured is a party to the arrangements,

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“increase” includes an increase from nil, and  
“reduction” includes a reduction to nil.

#### Textual Amendments

- F68** Words in s. 435 heading substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 18\(6\)](#)
- F69** S. 435(1)(a) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 18\(2\)](#)
- F70** S. 435(1A) inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 18\(3\)](#)
- F71** Word in s. 435(2)(b) omitted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by virtue of [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 18\(4\)\(a\)](#)
- F72** S. 435(2)(d) and word inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 18\(4\)\(b\)](#)
- F73** Words in s. 435(3) substituted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 18\(5\)](#)

#### 436 Balance sheet amounts determined on assumption company has no liabilities

- (1) This section applies if—
- a company owns any plant or machinery at any time on any day (“the relevant day”),
  - for the purpose of determining a question as to the application of Chapter 3 or 4 regard must be had to the amount (if any) which falls (or would fall) to be shown in any balance sheet of the company in respect of the plant or machinery, and
  - condition A or B is met.
- (2) Condition A is met if, apart from this section, there would be no amount which would fall to be shown in the balance sheet of the company in respect of the plant or machinery.
- (3) Condition B is met if the amount which, apart from this section, would fall to be shown in the balance sheet of the company in respect of the plant or machinery is less than the amount which would fall to be so shown on the assumption in subsection (4).
- (4) The assumption is that the company has no liabilities of any kind at any time on the relevant day.
- (5) For the purpose of determining the question as to the application of Chapter 3 or 4, the amount which falls (or would fall) to be shown in any balance sheet of the company in respect of the plant or machinery is to be determined on the assumption in subsection (4) (as well as on the other assumptions applicable under other provisions of those Chapters).
- (6) In this section “liabilities” includes any share capital issued by the company which falls to be treated for accounting purposes as a liability.
- [<sup>F74</sup>(7) Except for subsection (6), this section applies to a partnership as it applies to a company, and references to “company” are to be read accordingly.]

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### Textual Amendments

- F74** S. 436(7) inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 19](#)

## CHAPTER 6

### SALES OF LESSORS: GENERAL INTERPRETATION

#### 437 Interpretation of the sales of lessors Chapters

- (1) This section applies for the purposes of the sales of lessors Chapters.
- (2) “Company” means a body corporate.
- (3) “Excluded lease of background plant or machinery for a building” has the meaning given in Chapter 6A of Part 2 of CAA 2001 (see section 70R of that Act).
- [<sup>F75</sup>(4) “Finance lease” means—
  - (a) in relation to any person, a lease that, in accordance with generally accepted accounting practice, falls (or would fall) to be treated in the accounts of that person as a finance lease or loan, or
  - (b) in relation to a lessee under a right-of-use lease, a lease that would fall to be treated in the accounts of the lessee as a finance lease if the lessee were required under generally accepted accounting practice to determine whether the lease falls to be so treated.]
- (5) “Fixture”—
  - (a) means any plant or machinery that is so installed or otherwise fixed in or to a building or other description of land as to become, in law, part of that building or other land, and
  - (b) includes any boiler or water-filled radiator installed in a building as part of a space or water heating system.
- (6) “Long funding finance lease”, “long funding lease” [<sup>F76</sup>, “long funding operating lease” and “right-of-use lease”] have the meanings given in Part 2 of CAA 2001 (see section 70YI(1) of that Act).
- (7) “Plant or machinery” has the same meaning as in Part 2 of CAA 2001.
- (8) “Plant or machinery lease” has the meaning given in Chapter 6A of that Part (see section 70YI(1) of that Act).
- [<sup>F77</sup>(8A) Property business” means a UK property business or an overseas property business. ]
- <sup>F78</sup>(9) .....

### Textual Amendments

- F75** S. 437(4) substituted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 4\(7\)\(a\)](#)
- F76** Words in s. 437(6) substituted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 4\(7\)\(b\)](#)

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- F77** S. 437(8A) inserted (with effect in accordance with Sch. 18 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 18 para. 7](#)
- F78** S. 437(9) omitted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by virtue of [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 21](#)

### [<sup>F79</sup> **437A** **Determining the ascribed value of plant or machinery**

- (1) For the purposes of the sales of lessors Chapters, the ascribed value of plant or machinery at any given time (“ the relevant time ”) is the value determined in accordance with this section.
- (2) Subsection (3) applies to plant or machinery if—
  - (a) it is subject to a plant or machinery lease at the relevant time,
  - (b) the relevant company or partnership is a lessor under the lease, and
  - (c) subsection (5) does not apply to it.
- (3) The ascribed value of plant or machinery to which this subsection applies is the higher of—
  - (a) the market value of the plant or machinery at the relevant time, and
  - (b) the present value at that time of the lease referred to in subsection (2).
- (4) Subsection (5) applies to plant or machinery if—
  - (a) it is subject to a plant or machinery lease at the relevant time,
  - (b) the lease is an equipment lease within the meaning of Chapter 14 of Part 2 of CAA 2001 (fixtures),
  - (c) the relevant company or partnership is the equipment lessor in respect of the lease (see section 174 of that Act), and
  - (d) the equipment lessor is treated at that time as the owner of the plant or machinery by virtue of an election made in reliance on section 177(1)(a)(i) of that Act (which permits elections if the conditions in section 178 are met in relation to the lease).
- (5) The ascribed value of plant or machinery to which this subsection applies is the present value at the relevant time of the lease referred to in subsection (4).
- (6) The ascribed value of plant or machinery to which neither subsection (3) nor subsection (5) applies is the market value of the plant or machinery at the relevant time.

#### **Textual Amendments**

- F79** Ss. 437A-437C inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 6 para. 22](#)

### **437B Section 437A: supplementary**

- (1) This section supplements section 437A.
- (2) Market value is to be determined on the assumption of a disposal by an absolute owner free from all leases and other encumbrances (including any agreement or arrangement that is or includes a plant or machinery lease).

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- (3) If plant or machinery is a fixture, its market value is so much of the market value of the relevant land and the fixture together as is attributable to the fixture on a just and reasonable apportionment.
- (4) “ Relevant land ” has the meaning given in section 173(2) of CAA 2001.

#### Textual Amendments

**F79** Ss. 437A-437C inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 6 para. 22**

### 437C Present value of a lease

- (1) For the purposes of section 437A, the present value of a lease is the present value of the amounts mentioned in subsection (2).
- (2) The amounts are—
  - (a) the amounts payable under the lease after the relevant time, and
  - (b) any residual amount.
- (3) Subsection (2)(a) does not apply to amounts payable by the lessor or to amounts that represent—
  - (a) charges for services, or
  - (b) qualifying UK or foreign tax to be paid by the lessor.
- (4) Present value is to be calculated by using the interest rate implicit in the lease.
- (5) The interest rate implicit in the lease is the interest rate that would apply in accordance with normal commercial criteria, including, in particular, generally accepted accounting practice (where applicable).
- (6) But if a rate cannot be determined in accordance with subsection (5), the interest rate implicit in the lease is taken to be 1% above LIBOR.
- (7) For this purpose—
  - (a) LIBOR means the London interbank offered rate on the applicable day for deposits for a term of 12 months in the applicable currency,
  - (b) the applicable day is the day comprising or including the relevant time (or, if that day is not a business day, the first business day after it), and
  - (c) the applicable currency is the currency in which payments under the lease are payable.
- (8) If—
  - (a) the lessee has an option to continue the lease for a period after expiry of its initial term, and
  - (b) it is reasonably certain at the relevant time that the lessee will exercise that option,
 references in this section to amounts payable under the lease include amounts payable under the lease as continued for any such period.
- (9) If the lease also relates to land or assets that are not plant or machinery, the present value of the lease is so much of the present value of the amounts mentioned in

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subsection (2) as is attributable to the plant or machinery on a just and reasonable apportionment.

(10) In this section, “qualifying UK or foreign tax” and “residual amount” have the meaning given in section 70YE of CAA 2001. ]

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**Textual Amendments**

**F79** Ss. 437A-437C inserted (with effect in accordance with Sch. 6 para. 27 of the amending Act) by Finance Act 2011 (c. 11), [Sch. 6 para. 22](#)

**Status:**

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**Changes to legislation:**

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