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

(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.

(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.

(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

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—

(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

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—

(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—

(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

(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.

(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 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.

378 Lessee under long funding finance lease: termination

(1) This section applies if—

(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—

(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,

"long funding finance lease" means a long funding lease that meets the finance lease test as a result of section 70N(1)(a) of that Act, and

"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,
(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.

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 qualifying change of ownership in relation to a company carrying on a business of leasing plant or machinery otherwise than in partnership with other persons.

(2) For the meaning of "business of leasing plant or machinery", see sections 387 to 391.

(3) For the meaning of "qualifying change of ownership", see sections 392 to 398.

(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.

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) a company carries on a business of leasing plant or machinery otherwise than in partnership,
- (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 business, and
- (b) 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—
- (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 business, and
- (b) 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.

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 No carry back of the expense

(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).

(2) No relief is to be given as a result of section 37(3)(b) (relief for trade losses against total profits of earlier accounting periods) in respect of so much of any loss as derives from the expense.

(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.

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—

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

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 qualifying leased plant or machinery.

(4) Subsection (3) is supplemented by section 388.

(5) Condition B is that at least half of the relevant company's income in the period of 12 months ending with the relevant day derives from qualifying leased plant or machinery.

(6) Subsection (5) is supplemented by section 391.

(7) For the purposes of this Chapter, plant or machinery is "qualifying leased plant or machinery", in relation to a company, if—

(a) expenditure is incurred (or treated as incurred) by the company on the provision of the plant or machinery wholly or partly for the purposes of the business,

(b) the company would be (or would at any time have been) entitled, on the assumptions in subsection (8), to an allowance under Part 2 of CAA 2001 in respect of that expenditure, and

(c) at any time in the period of 12 months ending with the relevant day the plant or machinery has been subject to a plant or machinery lease which is not an excluded lease of background plant or machinery for a building (see section 437(3)).

(8) The assumptions are—

(a) that sections 34A and 70A of CAA 2001 (lessees, and not lessors, under long funding leases to be entitled to capital allowances) are ignored, and

(b) that any claim that could be made for an allowance under Part 2 of that Act is made.

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.

(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 market 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.

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 market 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 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).

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 qualifying leased plant or machinery is to be determined on a just and reasonable basis.

"Qualifying change of ownership"

392 "Qualifying change of ownership"

(1) This section defines when there is a qualifying change of ownership in relation to a company ("A") for the purposes of the sales of lessors Chapters.

(2) There is a qualifying change of ownership in relation to A on any day if there is a relevant change in the relationship on that day between—
- (a) A, and
- (b) a principal company of A.

(3) For an exception to subsection (2) see section 395 (no qualifying change of ownership in certain intra-group reorganisations).

(4) There is a relevant change in the relationship between A and a principal company of A on any day in any of the circumstances in section 393 or 394 (qualifying 75% subsidiaries and consortium relationships).

(5) For an exception to subsection (4) see section 396 (no qualifying change of ownership where principal company's interest in consortium company unchanged).

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% or 90% subsidiary" etc).

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 90% 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.

(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 90% 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 90% 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% or 90% subsidiary" etc).

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% or 90% 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—
   (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.

(5) In the sales of lessors Chapters, references to a qualifying 90% subsidiary are to be read in the same way as references to a qualifying 75% subsidiary, but as if the references in subsections (1), (2) and (4) to 75% were to 90%.

(6) A company ("S") cannot be a qualifying 90% subsidiary of another company for the purposes of the sales of lessors Chapters if S is a qualifying 75% subsidiary of a third company.

(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" and "90% subsidiary").

(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.

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.

(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 market 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.

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 market 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).

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
- (b) expenditure incurred by the relevant company in acquiring plant or machinery on the relevant day is to be left out of account unless it is acquired from an associated company.

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 90% 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

(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 90% subsidiary of a company, subsection (5) is to be read as if references to that company were substituted for references to A.

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.

(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 90% 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).

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

(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 qualifying leased plant or machinery.

(3) Subsection (2) is supplemented by section 411.

(4) Condition B is that at least half of the partnership's income in the period of 12 months ending with the relevant day derives from qualifying leased plant or machinery.

(5) Subsection (4) is supplemented by section 414.

(6) For the purposes of this Chapter, plant or machinery is "qualifying leased plant or machinery", in relation to the partnership, if—

(a) expenditure is incurred (or treated as incurred) by the partnership on the provision of the plant or machinery wholly or partly for the purposes of the business,

(b) the partnership would be (or would at any time have been) entitled, on the assumptions in subsection (7), to an allowance under Part 2 of CAA 2001 in respect of that expenditure, and

(c) at any time in the period of 12 months ending with the relevant day the plant or machinery has been subject to a plant or machinery lease which is not an excluded lease of background plant or machinery for a building (see section 437(3)).

(7) The assumptions are—

(a) that sections 34A and 70A of CAA 2001 (lessees, and not lessors, under long funding leases to be entitled to capital allowances) are ignored, and

(b) that any claim that could be made for an allowance under Part 2 of that Act is made.

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—

(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 market 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.

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 market 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).

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 qualifying leased plant or machinery is to be determined on a just and reasonable basis.

"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—
- (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—

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

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)).

(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
- (b) expenditure incurred by the partnership in acquiring plant or machinery on the relevant day is to be left out of account unless it is acquired from a qualifying company.

(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.

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—

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

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.

(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 No carry back of the expense

(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).

(2) No relief is to be given as a result of section 37(3)(b) (relief for trade losses against total profits of earlier accounting periods) in respect of so much of any loss as derives from the expense.

(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.

428 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 425 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 425, 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—

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

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 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 90% 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—
  (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.

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) Section 433 applies 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.

(2) The restrictions in section 433 apply in respect of so much of the loss as derives from the expense (in that section referred to as "the restricted loss amount").

(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.

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 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) in respect of the restricted loss amount.

(6) The restricted loss amount is not available for set off by way of group relief in accordance with Chapter 2 of Part 5 (surrender of company's losses etc for an accounting period).

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 question A or B.

(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.

435 Disregard of increases and decreases in balance sheet amounts

(1) This section applies if—

(a) for the purpose of determining a question as to the application of Chapter 3 or 4 regard must be had to amounts (if any) which fall (or would fall) to be shown in any balance sheet of any company in respect of plant or machinery,

(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.

(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, or

(c) the amount of any expense which any company is treated as incurring under any such provision would be increased.

(3) For the purpose of determining the question as to the application of Chapter 3 or 4, the reduction or increase in the amount which falls (or would fall) to be shown in the balance sheet in respect of plant or machinery 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,

"increase" includes an increase from nil, and

"reduction" includes a reduction to nil.

436 Balance sheet amounts determined on assumption company has no liabilities

(1) This section applies if—

(a) a company owns any plant or machinery at any time on any day ("the relevant day"),

(b) 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

(c) 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.

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).

(4) "Finance lease", in the case of any person, means a lease that, in accordance with generally accepted accounting practice, falls (or would fall) to be treated as a finance lease or loan in the accounts of that person.

(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" and "long funding operating 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).

(9) The market value of any plant or machinery at any time is to be determined on the assumption of a disposal by an absolute owner free from—

(a) all leases (including any agreement or arrangement which is or includes a plant or machinery lease), and

(b) other encumbrances.