These notes refer to the Capital Allowances Act 2001 (c.2) which received Royal Assent on 22nd March 2001

CAPITAL ALLOWANCES ACT 2001

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Glossary

Part 2: Plant and machinery allowances

Chapter 12: Ships

Overview

492. This Chapter contains provisions relating to plant and machinery allowances and balancing charges arising in respect of expenditure on ships. Within the Chapter there are two main sets of provisions. These provide entitlement to:

- postpone first-year and writing-down allowances arising on ships; and
- defer balancing charges arising on the disposal of certain ships.

493. The first set of provisions deals with pooling of expenditure and postponement of allowances. These provisions allow first-year and writing-down allowances to be "stockpiled" and taken in subsequent chargeable periods. In order to achieve this:

- sections 127 to 129 deal with the allocation of expenditure to single asset pools ("single ship pools"), the circumstances in which expenditure on ships must not be allocated to a single ship pool, and an election for expenditure to be allocated to a different pool;
- sections 130 to 131 allow taxpayers to postpone allowances for single ship pools and to take them in future chargeable periods; and
- sections 132 to 133 deal with disposal events in respect of single ship pools.

494. The second set of provisions deal with deferment of balancing charges:

- section 134 introduces the deferment rules;
- sections 135 to 139 set out when, how and how much of a balancing charge can be deferred;
- sections 140 to 145 set out how to attribute new expenditure on ships with deferred balancing charges. They include rules attributing older balancing charges to older expenditure, the procedure for varying an attribution and the rules which apply if some of the conditions for attribution cease to be met;
- sections 146 to 150 identify what counts as expenditure on new shipping; and
- sections 151 to 154 identify ships which qualify for the deferment rules;

- sections 155 and 156 allow the deferment rules to operate across a change in the person carrying on the qualifying activity and give "connected persons" a special, wider meaning for the purposes of the deferment rules.

495. Sections 157 and 158 provide for the Chapter to be given effect and apply the provisions of ICTA which decide if companies are members of the same group.

Background

496. Legislation which allowed the postponement of plant and machinery allowances on ships was first introduced in FA 1965. Subsequent changes to plant and machinery allowances made similar provision. The current approach stems mainly from FA 1985.

497. The deferment rules were introduced by sections 94 to 98 of FA 1995 to deal with cases in which:

- a balancing charge arises on the disposal of a ship; and
- a replacement ship is not acquired until a subsequent chargeable period.

498. The deferment rules let a person defer the balancing charge if expenditure (equal to or greater than the amount deferred) is incurred on a replacement ship within six years of the disposal.

Section 127: Single ship pool

499. This section is based on parts of section 31(1) and (2) of CAA 1990. It requires expenditure on ships to be allocated to a single asset pool – called a "single ship pool" – subject to the two exceptions in *subsection (2)*.

500. *Subsection (3)* defines the appropriate non-ship pool. This replaces the term "actual trade" which is used in CAA 1990. See *Note 30* in Annex 2.

Section 128: Expenditure which is not to be allocated to single ship pool

501. This section is based on parts of section 31(1) and (11) of CAA 1990. It provides that expenditure must not be allocated to a single ship pool if the ship is provided for leasing unless the ship meets the conditions in *subsection (1)(a)* and *(b)*.

Section 129: Election to use the appropriate non-ship pool

502. This section is based on section 33 of CAA 1990. It allows taxpayers to opt out of the single ship pool rules in respect of any expenditure on ships. It includes a minor change.

503. *Subsection (1)* provides for an election to do this. CAA 1990 requires taxpayers to give notice for this rather than to elect. By requiring an election, this Act gives taxpayers the benefit of section 42 of TMA 1970 and Schedule 18 to FA 1998. See *Change 21* in Annex 1.

504. This section has nothing for the following provisions in section 33 of CAA 1990 which are unnecessary for this Act:

- section 33(1) – see *Notes 32* and *33*in Annex 2;
- section 33(2) – this is unnecessary given the way this Act deals with pools in Chapter 5; and
- section 33(3)(a) – see *Note 31* in Annex 2.

505. Section 577 defines "notice". Section 576 gives the meaning of "Inland Revenue".

Section 130: Notice postponing first-year or writing-down allowance

506. This section is based on sections 30(1) and (1A) and 31(3) and (3A) of CAA 1990. It allows taxpayers to postpone first-year allowances arising on the provision of ships and writing-down allowances for single ship pools.

507. Section 577 defines "notice". Section 576 gives the meaning of "Inland Revenue".

Section 131: Effect of postponement

508. This section is based on sections 30(2) and (4) and 31(4), (5) and (10) of CAA 1990. It deals with the mechanics of postponing an allowance.

509. *Subsection (1)(b)* provides that the postponement of an allowance does not affect the calculation of the available qualifying expenditure in any chargeable period.

510. *Subsections (2)* and *(3)* provide that the total amount postponed may be taken as allowances in subsequent chargeable periods.

511. *Subsection (4)* makes it clear that the total allowances so claimed may not exceed the total amount postponed.

512. *Subsection (5)* makes it clear that any allowances made (but previously postponed) do not affect the calculation of the unrelieved qualifying expenditure in section 59.

513. *Subsection (6)* ensures that any subsequent claim for an allowance that has previously been postponed does not affect the calculation of writing-down allowances in that subsequent chargeable period.

514. *Subsection (7)* provides that postponed allowances (that have not subsequently been taken) are not treated as amounts carried forward for the purposes of section 403ZB(2) of ICTA. Section 31(10) of CAA 1990 also refers to sections 383(5)(d) and 388(7) of ICTA. However, these references were spent following the repeal of section 383 and of part of section 388(7) by FA 1994.

515. Sections 30(5) and 31(6) of CAA 1990 have not been rewritten. See *Note 34* in Annex 2. That also explains the reference in subsection (1)(b) of this section to "the allowance" in place of "the whole allowance" in section 30(2)(b) of CAA 1990.

Section 132: Disposal events and single ship pool

516. This section is based on parts of sections 31(2) and (11), 31(7), 33(5)(b) and 40(4) of CAA 1990. It:

- gives an additional disposal event for single ship pools; and
- provides special rules for any disposal event which occurs.

517. *Subsection (2)* provides the special rules dealing with all disposal events in relation to a single ship pool. These rules are necessary as the postponement rules are not intended to give rise to balancing allowances or charges on the disposal of a ship.

518. In CAA 1990, a disposal value is brought into account in the notional trade (which is how the single ship pool is established). However, any balancing allowance or charge is not given effect in the normal way. The amount is instead allocated to the shipowner's actual trade as if it were qualifying expenditure (in the sense used in CAA 1990) or a disposal value. This section is more direct. If there is a disposal event in respect of a single ship pool, any available qualifying expenditure is allocated to the appropriate non-ship pool. It is in that pool that any disposal value is brought into account. The end result under these two different methods is the same. See *Note 35* in Annex 2.

519. *Subsection (3)* makes it clear that a disposal event is dealt with in the same way if there has been an election under section 129.

520. There is nothing in this section equivalent to section 31(8) of CAA 1990. That cannot affect tax liabilities in chargeable periods covered by this Act.

Section 133: Ship not used

521. This section is based on section 32(1) of CAA 1990. It withdraws any writing-down allowances made or postponed for a single ship pool if the ship ceases to be owned without being used for the purposes of the qualifying activity.

522. Relief for expenditure on the ship is not lost. Subsection (3) allocates an amount equal to the withdrawn allowances to the appropriate non-ship pool.

523. *Subsection (4)* makes it clear that this section does not apply as an alternative to section 132. Both sections could apply to a single event.

524. Section 32(2) of CAA 1990 is not rewritten in this Act as it merely ensures that definitions applying in section 31 also apply to section 32(1).

Section 134: Deferment of balancing charges: introduction

525. This section provides an introduction to the deferment rules in sections 135 to 156.

Sections 135 and 136: Claims and conditions for deferment

526. These sections are based on parts of sections 33A(1) and (2) and 33F(1) and (2). They provide the conditions that need to be met if a person is to defer a balancing charge.

527. This Act has nothing corresponding to:

- section 33F(3) of CAA 1990. That provides for claims to be made under the deferment rules on or after 31 May 1996; and
- section 33A(2)(b) of CAA 1990. That provides that there can be no deferment if any of the limits on the amount deferred is nil. It is unnecessary as the deferment of nil would have no effect.

Section 137: Effect of deferment

528. This section is based on part of section 33A(2) of CAA 1990. It provides the mechanism for giving effect to the deferment. It reduces or (if the full balancing charge is deferred) cancels out the effect of the balancing charge by allocating the amount deferred to the appropriate non-ship pool. This is because the balancing charge from the disposal of the ship leads to a disposal value in the appropriate non-ship pool. See paragraph 518 above and section 132.

Section 138: Limit on amount deferred

529. This section is based on part of section 33A(2), (3) and (6) of CAA 1990. It provides the upper limits on the amount of any balancing charge that may be deferred. There is a minor change.

530. *Subsection (1)(a)* provides that the amount deferred must not exceed the balancing charge which would arise in the appropriate non-ship pool if the claim for deferment had not been made. In CAA 1990, this limit is expressed in terms of what would be the balancing charge for the shipowner's actual trade ignoring balancing charges from the notional trades (in this Act, pools) provided by sections 41(2), 79(5) and 80(5).

531. This subsection is more direct. Subsection (1)(a) also ensures that balancing charges arising in the "appropriate non-ship pool" applicable to a ship may not affect a claim to defer a balancing charge arising in a different pool. See *Change 22* in Annex 1.

532. *Subsection (1)(b)* provides that the deferred amount is limited to the balancing charge actually attributable to the ship. This amount is quantified in section 139. This ensures that other disposal events in the appropriate non-ship pool do not have the effect of increasing the amount available for deferment.

533. *Subsection (1)(c)* ensures that the amount of a deferment claim is limited to the expenditure on new shipping that will be incurred in the six years from the disposal event. This expenditure must be incurred either by:

- the shipowner; or
- if the shipowner is a company, a member of the same group as the shipowner.

534. *Subsection (1)(d)* provides that the amount of the deferment may not exceed the shipowner's profits or income from the qualifying activity in the relevant chargeable period. This ensures that a deferment claim may not create a loss for the chargeable period in which the balancing charge arises.

535. *Subsection (2)* provides that for the purposes of subsection (1)(d):

- other deferments for the chargeable period are taken into account; and
- a deferment takes precedence over the provisions dealing with the carry-forward of trading losses.

Example

Suppose P has a shipping trade. During the year ending 30 June 2001 P has a taxable profit of £340,000. That figure includes a balancing charge of £500,000 arising on the disposal of a qualifying ship. P also has trading losses of £209,000 available to carry forward at 1 July 2000.

If no claim for deferment is made, P's net profit for the year ending 30 June 2001 is:

Actual profit	£340,000
Less:	
Loss brought forward	£209,000
	_____
Taxable profit	£131,000
	_____

P would have no further losses available to carry forward to the chargeable period for the year ending 30 June 2002.

If P is expecting to incur further expenditure on new shipping within six years of the disposal, P will be entitled to defer the balancing charge arising in the year ending 30 June 2001.

Under subsection (1)(a) the amount qualifying for deferment may not exceed the balancing charge arising (£500,000). Under subsection (1)(d), the deferred amount must also be no more than P's profit for the year ending 30 June 2001 (£340,000). In accordance with subsection (2), the losses brought forward are ignored for this.

Suppose P defers £340,000. The balancing charge is effectively reduced by this amount, giving rise to a nil profit in the year ending 30 June 2001. P's losses of £209,000 will be carried forward to the year ending 30 June 2002.

Section 139: Amount taken into account in respect of old ship

536. This section is based on section 33B of CAA 1990. It determines the amount of any balancing charge that is deemed to relate to the ship. It is one of the provisions that ensure that a shipowner may only defer a balancing charge arising from the disposal of a qualifying ship.

537. It is relatively easy to identify the balancing charge arising on the disposal of the ship if:

- all of the expenditure on the provision of a ship is allocated to a single ship pool; and
- no expenditure is then allocated from the single ship pool to the appropriate non-ship pool.

It is just the excess of the disposal value over the available qualifying expenditure after any allowances. *Subsection (2)* provides this – "amount A".

538. The same cannot be done if some or all of the expenditure on the ship is allocated to the appropriate non-ship pool. It is in the nature of pooling that it is impossible to say how much of any allowance relates to one bit of expenditure and how much to another. Some assumptions have to be made. *Subsections (3)* and *(4)* do this. They provide "amount B" – what would have been the balancing charge if:

- all the expenditure on the ship were allocated to the appropriate pool;
- no other expenditure had been allocated to that pool; and
- writing-down allowances had been made in full.

539. *Subsection (5)* caters for a person who defers a balancing charge and then later makes an election to allocate expenditure to the non-ship pool. They can do this because section 129 allows up to two years to make the election. It substitutes amount B in place of amount A. Any adjustments to assessments can then be made if necessary (see section 157).

Section 140: Notice attributing deferred amounts to new expenditure

540. This section is based on section 33A(5), (5A), (6) and (8) of CAA 1990. It provides the basic conditions that need to be met for a deferred amount to be attributed to expenditure on new shipping.

541. If a deferred amount is not attributed to expenditure on new shipping, then section 144 provides that it ceases to qualify for deferment.

542. *Subsection (1)* provides that the shipowner must give a notice to the Inland Revenue attributing a deferred amount to the new expenditure.

543. *Subsection (2)* makes it clear that an attribution matches a deferred amount with an equal amount of new expenditure.

544. *Subsection (3)* ensures that the rule in subsection (1) is subject to the following two subsections and to the "first-in first-out" rule in section 141.

545. *Subsection (4)* requires the expenditure to be incurred in the six years beginning with the relevant disposal event. For example, if the balancing charge arising relates to the disposal of a ship on 29 November 2001, the expenditure on new shipping must be incurred by 28 November 2007. The expenditure must be incurred by the shipowner or a company within the same group.

546. *Subsection (5)* ensures that the total attributed to new expenditure may not exceed the amount of the new expenditure.

547. Section 577 defines "notice".

Section 141: Deferred amounts attributed to earlier expenditure first

548. This section is based on section 33D(6) of CAA 1990. It requires a deferred amount to be attributed to the first item of expenditure on new shipping that is incurred in the six-year period. If the first item of expenditure is less than the deferred amount, then the excess is carried forward to the next item, and so on. This means that shipowners cannot generally choose how to attribute deferred amounts.

549. There is a minor change. *Subsection (2)(b)* goes wider than CAA 1990 by providing for the case in which two ships are disposed of simultaneously. See *Change 23* in Annex 1.

Section 142: Variation of attribution

550. This section is based on section 33F(4) and (4A) of CAA 1990. It lets a shipowner vary an attribution. This gives the shipowner an element of choice as to which ship a deferred amount is attributed. That can be of benefit to taxpayers if two (or more) ships are acquired simultaneously.

Example

A has deferred a balancing charge of £1m arising in respect of the disposal of a ship on 20 August 2001. On 7 October 2002, A acquires two new ships, *S1* and *S2* for £500,000 and £750,000 respectively. A initially attributes £500,000 of the deferred amount to both of the new ships.

On 24 March 2003, A sells *S1* for £500,000. As a result of the original claim for deferment, this sale will give rise to a further balancing charge of £500,000. A does not expect to incur any further expenditure on shipping. As a result, A will not be able to defer any of this amount. However, provided A does so within the time limits provided by this section, A can vary the original attribution to maximise the amount attributed to *S2* (in other words to £750,000 leaving only £250,000 attributed to *S1*).

Section 143: Effect of attribution

551. This section is based on section 33C of CAA 1990. It gives effect to an attribution as a disposal value in the single ship pool.

552. This may seem a roundabout way of doing things. The shipowner has in effect already had tax relief for the expenditure on the new ship against the earlier balancing charge. So it might be thought that all that is needed is to provide that some or all of the expenditure on the new ship is not qualifying expenditure. Although that would adequately reduce future plant and machinery allowances it could also cause problems. For example, when the new ship is sold, section 62 might mean there was no disposal value. The approach here, which in effect:

- lets the shipowner add the expenditure on the new ship to a pool but
- requires a disposal value in the pool,

fits in better with the wider scheme of Part 2.

Section 144: Amounts which cease to be attributable

553. This section is based on section 33A(4) of CAA 1990. It deals with cases in which deferred amounts cease to qualify for deferment. For example, if an amount is deferred, it may become clear (either during the six-year period or at its conclusion) that there will not be sufficient expenditure in the period to which the deferred amount may be attributed. In such cases the amount qualifying for deferment is retrospectively reduced as appropriate.

Section 145: Requirement to notify where no entitlement to defer amounts

554. This section is based on section 33F(5) and (6) of CAA 1990. It requires the shipowner to notify the Inland Revenue on ceasing to be entitled to a deferment.

555. The shipowner has to notify the Inland Revenue no later than three months from the end of the relevant chargeable period. Failure to do so makes the shipowner liable to a penalty under section 98(5) of TMA 1970.

556. This will almost invariably give rise to a change in the shipowner's taxable profits in earlier chargeable periods. *Subsection (4)* allows assessments to be made outside the normal time limits.

557. Section 33F(5) has as one of its conditions that "a claim for deferment has been made". However, the context makes it clear that the provision is only relevant if a deferment has actually been made (rather than simply claimed). As a result this section refers to an amount having actually been deferred.

558. Section 576 gives the meaning of "Inland Revenue". Section 577 defines "notice".

Section 146: Basic meaning of expenditure on new shipping

559. This section is based on section 33D(1) of CAA 1990. It provides the basic conditions for expenditure to qualify as expenditure on new shipping. Sections 147 to 150 give further rules.

560. *Subsection (3)(a)* requires that the expenditure is incurred wholly and exclusively for the purposes of a qualifying activity carried on by the person incurring the expenditure. This stops expenditure from qualifying if, for example, the ship is used only partly for purposes of the qualifying activity of the person incurring the expenditure.

561. *Subsection (3)(b)* requires that when the expenditure is incurred, it must appear that the ship will be used for a qualifying activity (as a qualifying ship) and will continue to do so for at least three years. This is to prevent the attribution of deferments to ships that are not intended to be used as qualifying ships. Section 33D(1)(a) does not include the words "when the expenditure is incurred". But they are implicit in CAA 1990.

562. *Subsection (3)(c)* requires that the expenditure on the ship is allocated to a single ship pool. This stops expenditure on, for example, some ships for leasing from qualifying for the deferment rules.

Section 147: Exclusions: ship previously owned

563. This is the first of four sections with further conditions for expenditure to qualify for attribution. It is based on section 33D(4) and (5) of CAA 1990. It stops expenditure qualifying for attribution if, broadly speaking, a person, A, buys a ship:

- within six years of previously owning it; or
- which had been owned in that six-year period by a person who is connected with A at any time between:
  - — the disposal event; and
  - — A becoming the owner of the ship.

564. "Connected person" is defined in section 187.

Example

A plc defers a balancing charge arising on the disposal of a ship on 6 February 2003. On 23 April 2005 A plc purchases a qualifying ship, *S*. *S* was owned by A

plc's subsidiary company, E Limited between 15 May 2001 and 6 June 2002. At all other times, *S* was owned by unconnected third parties.

Subsection (1)(a) does not prevent A plc from attributing the deferred balancing charge to the expenditure on *S* because the company has not previously owned the ship.

Subsection (1)(b), however, determines that the deferred amount may not be attributed to the expenditure on *S*. This applies because E Limited has owned the ship during the six years before S plc acquired the ship (on 23 April 2005) and A plc is connected with E Limited at a material time (in other words at some time between 6 February 2003 and 23 April 2005).

Section 148: Exclusions: object to secure deferment

565. This section is based on part of section 33D(4) of CAA 1990. It is an anti-avoidance provision which stops expenditure qualifying for attribution if deferment of a balancing charge was the object or one of the main objects of the transaction (or transactions) by which the ship was provided.

Section 149: Exclusions: later events

566. This section is based on section 33D(2) and (3) of CAA 1990. It means expenditure ceases to qualify for attribution if any of the events listed in subsection (1) occurs. This stops expenditure for ships, which only temporarily satisfy the conditions, being attributed to deferred balancing charges.

567. *Subsection (1)(a)* provides that the ship has to be a "qualifying ship" for the first three years after it is first brought into use. This term is defined in sections 151 to 154. The 3-year period stops early if the ship begins to be owned by an unconnected third party. CAA 1990 contains the words "without having been so brought into use". This Act does not as the meaning is covered by the use in *subsection (2)(a)* of the words "first" and "if earlier".

568. *Subsection (1)(b)* requires that the expenditure on the ship is not allocated to the appropriate non-ship pool. This only applies to the expenditure to which a deferred balancing charge is attributed. If the total expenditure on the provision of a ship exceeds the deferred amount, the excess can be allocated to the appropriate non-ship pool.

569. *Subsection (1)(c)* requires that the expenditure is not on a ship for overseas leasing which is not protected leasing.

Section 150: Exclusions where expenditure not incurred by shipowner

570. This section is based on section 33D(2A) and (2B) of CAA 1990. It stops expenditure incurred by a member of the same group of companies qualifying as expenditure on new shipping if the company:

- ceases to own the ship before it is used for its qualifying activity; or
- is required to bring in a disposal value in respect of the ship within the first three years of the ship being used,

unless it is because the ship is lost or irreparably damaged.

571. *Subsection (4)* has the same effect if the company and the shipowner cease to be members of the same group within three years of the ship being used by the company. But any changes in the group are ignored if they happen after the ship is lost or irreparably damaged.

Section 151: Basic meaning of qualifying ship

572. This section is based on section 33E(1) of CAA 1990. It provides the basic conditions for a ship to qualify for the deferment rules. That is:

- for a balancing charge on the ship to be deferred; or
- for expenditure on the ship to be attributed to a deferred charge.

Section 152: Ships under 100 tons

573. This section is based on section 33E(2) of CAA 1990. It relaxes the rule that requires a qualifying ship to have a gross registered tonnage of 100 tons or more. The relaxation applies if the disposal event giving rise to the balancing charge is or results from the total loss of a ship or the irreparable damage to it.

Section 153: Ships which are not qualifying ships

574. This section is based on section 33E(3) and (4) of CAA 1990. It provides that certain kinds of ships are not qualifying ships.

575. *Subsection (1)* excludes from the meaning of "qualifying ship" ships of a kind generally used for sport or recreation. Passenger ships and cruise liners are not treated as falling within this exclusion and may therefore be considered as qualifying ships.

576. *Subsection (3)* gives "offshore installations" and "controlled waters" the same meaning as in the Mineral Workings (Offshore Installations) Act 1971. The relevant definitions are reproduced below.

Regulation 3(1) of the Offshore Installations and Pipeline Works (Management and Administration) Regulations 1995 (SI 1995/738)

"An *offshore installation* is "a structure which is, or is to be, or has been used, while standing or stationed in relevant waters, or on the foreshore or other land intermittently covered with water-

(a) for the exploitation, or exploration with a view to exploitation, of mineral resources by means of a well:

(b) for the storage of gas in or under the shore or bed of relevant waters or the recovery of gas so stored;

(c) for the conveyance of things by means of a pipe; or

(d) mainly for the provision of accommodation for persons who work on or from a structure falling within any if the provisions of this paragraph,

and which is not an excepted structure [under paragraph 2]".

Section 12 of the Mineral Workings (Offshore Installations) Act 1971

"*Controlled waters* are:

"tidal waters and parts of the sea in or adjacent to Great Britain up to the seaward limits of territorial waters; and

any area designated by order under section 1(7) of the Continental Shelf Act 1964".

Section 154: Further registration requirement

577. This section is based on part of section 33E(5) to (9) of CAA 1990. It provides that a qualifying ship must generally be registered on a register of shipping within the British Isles, a British colony or the European Economic Area.

578. This additional registration requirement does not need to be met:

- during the first three months that the ship is used; or
- more than three years after the ship is first used.

579. If the ship is no longer owned by the person incurring expenditure on it (or a connected person) at some time during the 3-year period, then the registration requirement does not need to be met from that time.

Section 155: Change in the persons carrying on the qualifying activity

580. This section is based on sections 33D(7) and 33F(7) of CAA 1990. It allows the deferment rules to operate when a trade is transferred in certain circumstances so a successor to the trade can incur the expenditure on new shipping and attribute it to the predecessor's deferred balancing charge.

581. There is a minor change. The section treats expenditure incurred by successors as that of the shipowner. This goes slightly further than CAA 1990. But in practice the effect is only that a successor to a trade is entitled to give notice of a variation of attribution of expenditure under section 142. See *Change 24* in Annex 1.

582. *Subsection (2)* applies only for the deferment rules. In CAA 1990, section 33D(7) applies for the whole of Part II. But this is in fact not a difference. See *Note 36* in Annex 2.

The circumstances in which section 113 of ICTA may apply are, very briefly, if there is a change in the persons carrying on a trade, profession or vocation, but at least one person carrying on the activity before the change continues to carry it on afterwards.

The circumstances in which section 343 of ICTA may apply are, again very briefly, if a trade is transferred between companies in common ownership.

Section 156: Connected persons

583. This section is based on section 33D(8) and part of section 33E(8) of CAA 1990. It provides an extended meaning of "connected person" for the purposes of the deferment rules. This caters for the way section 155 allows the deferment rules to operate across the transfer of a trade.

584. Section 33E(8)(a) uses the word "connected" without any specified definition. But from the context it is implicit that the word has the meaning given by section 839 of ICTA.

Section 157: Adjustment of assessments etc.

585. This section is based on sections 30(3) and 31(9) and part of section 33F(6) of CAA 1990. It provides for the making of adjustments to assessments as necessary to give effect to the rules in the Chapter.

Section 158: Members of same group

586. This section is based on sections 33D(2B)(b) and 33E(2)(b) and part of section 33A(8) of CAA 1990. It defines when two companies are "members of the same group".