

Sale and lease-back etc (Corporation Tax provisions, with a Schedule of Income Tax provisions)

CONTENTS

PART 1

SALE AND LEASE-BACK ETC

CHAPTER 1

PAYMENTS CONNECTED WITH TRANSFERRED LAND

Overview

- 1 Overview [j301B]

Application of the Chapter

- 2 Transferor or associate becomes liable for payment of rent [j301]
- 3 Transferor or associate becomes liable for payment other than rent [j302]

Relief: restriction and carrying forward

- 4 Corporation tax deduction not to exceed commercial rent [j303]
- 5 Carrying forward parts of payments [j304]

Supplementary provisions about payments

- 6 Aggregation and apportionment of payments [j305]
- 7 Exclusion of service charges etc [j306]
- 8 Payments made for later periods [j307]

Interpretation etc

- 9 Relevant corporation tax relief [j313]
- 10 Commercial rent: comparison with rent under a lease [j308]
- 11 Commercial rent: comparison with payments other than rent [j309]
- 12 Lease and rent [j310]
- 13 Associated persons [j312]
- 14 Land outside the UK [j311]

CHAPTER 2

NEW LEASE AFTER ASSIGNMENT OR SURRENDER

Overview

- 15 Overview [j356]

Application of the Chapter

- 16 New lease after assignment or surrender [j314]

Taxation of consideration

- 17 Taxation of consideration [j315]
18 Position where new lease does not include all original property [j320]

Relief for rent under new lease

- 19 Relief for rent under new lease [j319]

New lease treated as ending

- 20 New lease treated as ending [j359]
21 Position where rent reduces [j316]
22 Position where lease may be ended [j317]
23 Position where lease may be varied [j327]
24 Lease treated as ending; rentcharge [j318]

Lease varied to provide for increased rent

- 25 Lease varied to provide for increased rent [j321]

Interpretation

- 26 Relevant corporation tax relief [j325]
27 Lessee includes partners and associates [j322]
28 Lease, lessee, lessor and rent [j323]

CHAPTER 3

LEASED TRADING ASSETS

Overview

- 29 Overview [j358]

Application of the Chapter

- 30 Leased trading assets [j332]
31 Long funding finance leases [j333]

Relief: restriction and carrying forward

- 32 Tax deduction not to exceed commercial rent [j334]
- 33 Carrying forward parts of payments [j335]

Supplementary provisions about payments

- 34 Aggregation and apportionment of payments [j336]
- 35 Payments made for later periods [j337]

Interpretation

- 36 Commercial rent [j338]
- 37 Lease [j355]
- 38 Relevant asset [j354]

CHAPTER 4

LEASED ASSETS: CAPITAL SUMS

Overview

- 39 Overview [j357]

Application of the Chapter

- 40 Application of the Chapter [j360]
- 41 Payment under lease [j361]
- 42 Sum obtained [j362]

Charge to corporation tax

- 43 Charge to corporation tax [j329]
- 44 Hire-purchase agreements [j349]
- 45 Adjustments where sum obtained before payment made [j331]

Obtaining of sum

- 46 Sum obtained in respect of interest [j363]
- 47 Sum obtained in respect of lessee's interest [j341]
- 48 Disposal of interest to associate [j344]

Apportionment

- 49 Apportionment of payments made and of sums obtained [j345]
- 50 Manner of apportionment [j346]

Interpretation

- 51 Associates [j347]
- 52 Capital sum [j352]
- 53 Lease [j353]
- 54 Relevant asset [j351]
- 55 Relevant tax relief [j330]
- 56 Meaning of "hire-purchase agreement" [j350]

Schedule – Sale and lease-back etc: new Part 12A of ITA 2007 [j300ASch]

PART 1

SALE AND LEASE-BACK ETC

CHAPTER 1

PAYMENTS CONNECTED WITH TRANSFERRED LAND

Overview

1 Overview [\[j301B\]](#)

This Chapter provides that in certain circumstances where a transfer is made regarding land, and the transferor or an associate becomes liable to make a payment connected with the land, corporation tax relief for the payment is restricted.

[Origin: Drafting.](#)

Application of the Chapter

2 Transferor or associate becomes liable for payment of rent [\[j301\]](#)

- (1) This Chapter has effect if—
- (a) land or an estate or interest in land is transferred,
 - (b) the transferor or a company associated with the transferor becomes liable to make a payment,
 - (c) the payment is a payment of rent under a lease of the land or part of it,
 - (d) the payment is one for which a deduction by way of relevant corporation tax relief is allowed, and
 - (e) in making a calculation for corporation tax purposes in accordance with generally accepted accounting practice, a calculation is made of the deduction allowed for the payment (as constituting an expense to be brought into account).

[Origin: ICTA s.779\(1\); Annex 1, change \[jc603\]; drafting.](#)

- (2) The reference in subsection (1)(a) to a transfer of an estate or interest in land includes a reference to any of the following—
- (a) the granting of a lease or another transaction involving the creation of a new estate or interest in the land,
 - (b) the transfer of the lessee's interest under a lease by surrender or forfeiture of the lease, and
 - (c) a transaction or series of transactions affecting land or an estate or interest in land, such that some person is the owner or one of the owners before and after the transaction or transactions but another person becomes or ceases to be one of the owners.

[Origin: ICTA s.779\(3\).](#)

- (3) In relation to a transaction or series of transactions mentioned in subsection (2)(c), a person is to be regarded as a transferor for the purposes of this Chapter if the person—
- (a) is an owner before the transaction or transactions, and
 - (b) is not the sole owner afterwards.

Origin: ICTA s.779(3).

- (4) The liability mentioned in subsection (1)(b) is one resulting from—
- (a) a lease of the land or part of it granted (at the time of the transfer or later) by the transferee to the transferor, or
 - (b) another transaction or series of transactions affecting the land or an estate or interest in it.

Origin: ICTA s.779(1).

- (5) The liability mentioned in subsection (1)(b) is one arising at the time of the transfer or later.

Origin: ICTA s.779(1).

3 Transferor or associate becomes liable for payment other than rent [j302]

- (1) This Chapter has effect if—
- (a) land or an estate or interest in land is transferred,
 - (b) the transferor or a company associated with the transferor becomes liable to make a payment,
 - (c) the payment is not a payment of rent under a lease but is otherwise connected with the land or part of it (whether it is a payment under a rentcharge or under some other transaction),
 - (d) the payment is one for which a deduction by way of relevant corporation tax relief is allowed, and
 - (e) in making a calculation for corporation tax purposes in accordance with generally accepted accounting practice, a calculation is made of the deduction allowed for the payment (as constituting an expense to be brought into account).

Origin: ICTA s.779(2); Annex 1, change [jc603].

- (2) The reference in subsection (1)(a) to a transfer of an estate or interest in land includes a reference to any of the following—
- (a) the granting of a lease or another transaction involving the creation of a new estate or interest in the land,
 - (b) the transfer of the lessee's interest under a lease by surrender or forfeiture of the lease, and
 - (c) a transaction or series of transactions affecting land or an estate or interest in land, such that some person is the owner or one of the owners before and after the transaction or transactions but another person becomes or ceases to be one of the owners.

Origin: ICTA s.779(3).

- (3) In relation to a transaction or series of transactions mentioned in subsection (2)(c), a person is to be regarded as a transferor for the purposes of this Chapter if the person—
- (a) is an owner before the transaction or transactions, and

(b) is not the sole owner afterwards.

Origin: ICTA s.779(3).

- (4) The liability mentioned in subsection (1)(b) is one resulting from a transaction or series of transactions affecting the land or an estate or interest in it.

Origin: ICTA s.779(2).

- (5) The liability mentioned in subsection (1)(b) is one arising at the time of the transfer or later.

Origin: ICTA s.779(2).

Relief: restriction and carrying forward

4 Corporation tax deduction not to exceed commercial rent [j303]

- (1) If this Chapter has effect under section 2, this section applies to a payment within section 2(1).

Origin: ICTA s.779(1).

- (2) If this Chapter has effect under section 3, this section applies to a payment within section 3(1).

Origin: ICTA s.779(2).

- (3) The deduction allowed for the payment must not exceed the commercial rent (for the period for which the payment is made) of the land in respect of which the payment is made.

Origin: ICTA s.779(4).

5 Carrying forward parts of payments [j304]

- (1) This section applies if conditions A and B are met.

Origin: Drafting.

- (2) Condition A is that under section 4 part of a payment which would otherwise be allowed as a deduction by way of relevant corporation tax relief is not allowed.

Origin: ICTA s.779(5).

- (3) Condition B is that one or more later payments are made by the transferor or a person associated with the transferor under –

- (a) the lease (if this Chapter has effect under section 2), or
- (b) the rentcharge or other transaction mentioned in section 3(1)(c) (if this Chapter has effect under section 3).

Origin: ICTA s.779(5).

- (4) The part of the payment mentioned in subsection (2) may be carried forward and treated for the purposes of a deduction by way of relevant corporation tax relief as if it were made –

- (a) when the next of the later payments is made, and
- (b) for the period for which that later payment is made.

Origin: ICTA s.779(5).

- (5) So far as a part of a payment carried forward under this section is not allowed as a deduction by way of relevant corporation tax relief, it may be carried forward again under this section.

Origin: ICTA s.779(6).

Supplementary provisions about payments

6 Aggregation and apportionment of payments [j305]

- (1) This section applies for the purposes of section 4.

Origin: ICTA s.779(6).

- (2) If more than one payment is made for the same period the payments must be taken together.

Origin: ICTA s.779(6).

- (3) If payments are made for periods which overlap –
(a) the payments must be apportioned, and
(b) the apportioned payments which belong to the common part of the overlapping periods must be taken together.

Origin: ICTA s.779(6).

- (4) References in subsections (2) and (3) to payments include references to parts of payments which under section 5 are treated as if made later than they were made.

Origin: ICTA s.779(6).

7 Exclusion of service charges etc [j306]

- (1) This section applies for the purposes of section 4.

Origin: ICTA s.779(6).

- (2) A payment must be excluded so far as it is in respect of any of the following –
(a) services,
(b) the use of relevant assets, and
(c) rates usually borne by the tenant.

Origin: ICTA s.779(6).

- (3) The amount excluded must be just and reasonable.

Origin: Annex 1, change [jc602].

- (4) If a lease or agreement contains provisions fixing the payments or parts of payments which are in respect of services or the use of assets, those provisions are not conclusive.

Origin: ICTA s.779(6); Annex 1, change [jc602].

- (5) A relevant asset is any description of property or rights other than land or an interest in land.

Origin: ICTA s.779(12).

8 Payments made for later periods [j307]

- (1) This section applies for the purposes of this Chapter.

Origin: ICTA s.779(7).

- (2) For the purposes of this section the relevant year (in relation to a payment) is the year which begins with the date it is made.

Origin: ICTA s.779(7).

- (3) If a payment is made for a period all of which is after the relevant year, it must be treated as made for that year.

Origin: ICTA s.779(7).

- (4) If a payment is made for a period part of which is after the relevant year, it must be treated as if a corresponding part of it was made for that year (and no part for a later period).

Origin: ICTA s.779(7).

Interpretation etc

9 Relevant corporation tax relief [j313]

For the purposes of this Chapter each of the following is a deduction by way of relevant corporation tax relief –

- (a) a deduction in calculating profits or gains chargeable under [Schedule A],
- (b) a deduction in calculating profits or losses of a trade for corporation tax purposes,
- (c) a deduction in calculating profits or gains chargeable to corporation tax under or by virtue of any provision to which [section 834A of ICTA] applies (miscellaneous charges), or in calculating any loss for which relief is given under [section {j4551rm} of this Act] (losses from miscellaneous transactions),
- (d) a deduction under section 76 of ICTA (insurance companies), and
- (e) a deduction under section [1143] [j2000] of [the Corporation Tax Act 2009] (expenses of management of a company's investment business).

Origin: ICTA s.779(13); Annex 1, change [jc634].

10 Commercial rent: comparison with rent under a lease [j308]

- (1) This section applies for the purpose of comparing under section 4(1) and (3) –
- (a) a payment, or payments taken together, of rent under a lease (the actual lease), and
 - (b) the commercial rent of the land.

Origin: ICTA s.779(8).

- (2) The commercial rent is the rent which might be expected to be paid under a lease of the land which –

- (a) was negotiated in the open market when the actual lease was created,
- (b) is of the same duration as the actual lease,
- (c) is subject to the terms and conditions of the actual lease as respects liability for maintenance and repairs, and
- (d) provides for rent payable at uniform intervals and at an appropriate rate.

Origin: ICTA s.779(8).

- (3) Rent is payable at an appropriate rate if –
 - (a) it is payable at a uniform rate, or
 - (b) in a case where the rent payable under the actual lease is rent at a progressive rate (and such that the amount of rent payable for a year is never less than the amount payable for a previous year), it progresses by gradations proportionate to those provided by the actual lease.

Origin: ICTA s.779(8).

11 Commercial rent: comparison with payments other than rent [j309]

- (1) This section applies for the purpose of comparing under section 4(2) and (3) –
 - (a) a payment within section 3(1) or such payments taken together, and
 - (b) the commercial rent of the land.

Origin: ICTA s.779(9).

- (2) The commercial rent is the rent which might be expected to be paid under a lease of the land which –
 - (a) was negotiated in the open market when the rentcharge or other transaction mentioned in section 3(1)(c) was effected,
 - (b) is a tenant's repairing lease, and
 - (c) is of an appropriate duration.

Origin: ICTA s.779(9).

- (3) A tenant's repairing lease is a lease where the lessee is under an obligation to maintain and repair the whole (or substantially the whole) of the premises comprised in the lease.

Origin: ICTA s.779(12).

- (4) To see whether a lease is of an appropriate duration, take the period over which payments are to be made under the rentcharge or other transaction, and –
 - (a) if that period is 200 years or more (or the obligation to make the payments is perpetual) an appropriate duration is 200 years, or
 - (b) if that period is less than 200 years, an appropriate duration is the same duration as that period.

Origin: ICTA s.779(9).

12 Lease and rent [j310]

- (1) This section applies for the purposes of this Chapter.

Origin: ICTA s.779(10), (12).

- (2) A reference to a lease includes a reference to any of the following –
- (a) an underlease, sublease, tenancy or licence,
 - (b) an agreement for a lease, underlease, sublease, tenancy or licence,
 - (c) in the case of land outside the United Kingdom, an interest corresponding to a lease (as defined here).

Origin: ICTA s.779(12).

- (3) A reference to rent includes a reference to any payment under a lease.

Origin: ICTA s.779(12).

- (4) A reference to rent under a lease includes a reference to expenses which the tenant under the lease is treated as incurring in respect of the land subject to the lease under any of –

- (a) sections [63] [j032301] to [67] [j032303n] of [the Corporation Tax Act 2009] (taxed leases),
- (b) sections [224] [j050316] to [226] [j050319A] of that Act (taxed leases).

Origin: ICTA s.779(10).

- (5) Expenses within subsection (4) must be treated as having been paid as soon as they were incurred.

Origin: ICTA s.779(10).

13 Associated persons [j312]

- (1) This section applies for the purposes of this Chapter.

Origin: ICTA s.779(11).

- (2) These persons are associated with one another –

- (a) the transferor in a transaction within section 2(1) or 3(1) and the transferor in another such transaction, if the two persons are acting in concert or if the two transactions are in any way reciprocal, and
- (b) any person who is an associate of either of those associated transferors.

Origin: ICTA s.779(11).

- (3) Two or more bodies corporate are associated with one another if they participate in, or are incorporated for the purposes of, a scheme –

- (a) for the reconstruction of any body or bodies corporate, or
- (b) for the amalgamation of any two or more bodies corporate.

Origin: ICTA s.779(11).

- (4) Persons are associated with one another if they are associates as defined in section 51 (relatives, settlements, persons controlling bodies, joint owners, etc).

Origin: ICTA s.779(11).

14 Land outside the UK [j311]

In the case of land outside the United Kingdom, expressions in this Chapter relating to interests in land and their disposition must be taken to relate to corresponding interests and dispositions.

Origin: ICTA s.779(12).

CHAPTER 2

NEW LEASE AFTER ASSIGNMENT OR SURRENDER

Overview

15 Overview [j356]

- (1) This Chapter provides that in certain circumstances where a lease of land is assigned or surrendered and another lease is granted or assigned –
 - (a) consideration received for the assignment or surrender of the first lease is taxed as a trade receipt or charged to corporation tax on income,
 - (b) tax relief is allowed for rent under the other lease.

Origin: Drafting.

- (2) The Chapter provides that in certain circumstances where a lease is varied it is treated as surrendered and another lease is treated as granted.

Origin: Drafting.

Application of the Chapter

16 New lease after assignment or surrender [j314]

- (1) This Chapter has effect if each of conditions A to D is met.

Origin: ICTA s.780(1).

- (2) Condition A is that –
 - (a) a company (the lessee) is a lessee of land under a lease which has 50 years or less to run (the original lease), and
 - (b) the lessee is entitled in respect of the rent under the original lease to a deduction by way of relevant corporation tax relief.

Origin: ICTA s.780(1).

- (3) Condition B is that –
 - (a) the lessee assigns the original lease to another person or surrenders it to the lessee's landlord, and
 - (b) the consideration for the assignment or surrender would not (apart from this Chapter) be taxable except as capital in the lessee's hands.

Origin: ICTA s.780(1).

- (4) Condition C is that –
 - (a) another lease (the new lease) is granted or assigned to the lessee, and
 - (b) the new lease is for a term of 15 years or less.

Origin: ICTA s.780(1).

- (5) Condition D is that the new lease –
 - (a) is of all or part of the land which was the subject of the original lease, or

- (b) includes all or part of the land which was the subject of the original lease.

Origin: ICTA s.780(1).

- (6) In subsection (4)(a) the meaning of the lessee is extended by section 27 (lessee includes partners and associates).

Origin: ICTA s.780(7).

Taxation of consideration

17 Taxation of consideration [j315]

- (1) An appropriate amount must be found under subsection (3) or (4) of—
 - (a) the consideration received by the lessee for the assignment or surrender, or
 - (b) each instalment of the consideration (if it is paid in instalments).

Origin: ICTA s.780(1), (3), (8).

- (2) For the purposes of the Corporation Tax Acts the appropriate amount must be treated in accordance with subsections (6) to (8) and not as a capital receipt.

Origin: ICTA s.780(1), (3).

- (3) If the term of the new lease is one year or less, the appropriate amount of the consideration or instalment is the whole of it.

Origin: ICTA s.780(3).

- (4) If the term of the new lease is more than one year, the appropriate amount of the consideration or instalment is the proportion of it found by the formula—

$$\frac{16 - N}{15}$$

Origin: ICTA s.780(3).

- (5) In subsection (4) N is the term of the new lease expressed in years (taking part of a year as an appropriate proportion of a year).

Origin: ICTA s.780(3).

- (6) The way the appropriate amount must be treated depends on whether these conditions are met—
 - (a) the consideration is received by the lessee in the course of a trade, and
 - (b) the rent payable by the lessee under the new lease is allowable as a deduction in calculating profits or losses of a trade, profession or vocation for tax purposes.

Origin: ICTA s.780(3); Annex 1, change [jc634].

- (7) If the conditions are met the appropriate amount must be treated as a receipt of a trade.

Origin: ICTA s.780(3); Annex 1, change [jc634].

- (8) If the conditions are not met the appropriate amount must be treated as an amount chargeable to corporation tax under the charge to corporation tax on income.

Origin: ICTA s.780(3), (3A).

- (9) In subsection (6)(b) the meaning of the lessee is extended by section 27 (lessee includes partners and associates).

Origin: ICTA s.780(7).

18 Position where new lease does not include all original property [j320]

- (1) This section applies for the purposes of section 17 if the property which is the subject of the new lease does not include all the property which was the subject of the original lease.

Origin: ICTA s.780(4).

- (2) The consideration received by the lessee must be treated as reduced to the portion of it found under subsection (3).

Origin: ICTA s.780(4).

- (3) The portion is that which is reasonably attributable to such part of the original property as –

- (a) consists of the property which is the subject of the new lease, or
- (b) is included in the property which is the subject of the new lease.

Origin: ICTA s.780(4).

- (4) The original property is the property which was the subject of the original lease.

Origin: ICTA s.780(4).

Relief for rent under new lease

19 Relief for rent under new lease [j319]

- (1) This section applies if the rent under the new lease is payable by a company within the charge to corporation tax.

Origin: ICTA s.780(1); drafting.

- (2) This section also applies if –

- (a) Chapter 2 of Part 12A of ITA 2007 (provision for income tax corresponding to this Chapter) has effect, and
- (b) the rent under the new lease is payable by a company within the charge to corporation tax.

Origin: ICTA s.780(1); drafting.

- (3) The provisions of [ICTA providing for deductions or allowances by way of corporation tax relief][Bill 5 providing for deductions by way of corporation tax relief] in respect of payments of rent apply in relation to the rent under the new lease.

Origin: ICTA s.780(1).

- (4) In subsection (2) and in subsection (3) as applied by subsection (2) references to the new lease and rent are to be read as in Chapter 2 of Part 12A of ITA 2007.

[Origin: Drafting.](#)

New lease treated as ending

20 New lease treated as ending [j359]

- (1) Sections 21 to 23 treat the new lease as ending in certain circumstances for the purposes of this Chapter.

[Origin: Drafting.](#)

- (2) If any of those provisions apply in a given case, and the new lease is treated as ending on different dates, it must be treated as ending on the earlier or earliest of them.

[Origin: ICTA s.780\(2\); drafting.](#)

21 Position where rent reduces [j316]

- (1) If the rent for a relevant period exceeds the rent for the following comparable period, the term of the new lease must be treated as ending on the date when the relevant period ends.

[Origin: ICTA s.780\(2\).](#)

- (2) For the purposes of this section –
- (a) a relevant period is a rental period of the new lease ending before its fifteenth anniversary,
 - (b) the following comparable period (in relation to a relevant period) is the rental period which is of the same duration as the relevant period and which begins on the day following the end of the relevant period,
 - (c) the rent for a period is the total rent payable under the new lease in respect of the period,
 - (d) a rental period is a period in respect of which a payment of rent is to be made, and
 - (e) the fifteenth anniversary of the new lease is the fifteenth anniversary of the date on which its term begins.

[Origin: ICTA s.780\(2\), \(8\).](#)

- (3) For the purposes of this section –
- (a) all rental periods of a quarter must be treated as being of the same duration, and
 - (b) all rental periods of a month must be treated as being of the same duration.

[Origin: ICTA s.780\(8\).](#)

22 Position where lease may be ended [j317]

- (1) This section applies if under the new lease the lessor or lessee has power to end the lease before the end of the term for which it was granted.

Origin: ICTA s.780(2).

- (2) The term of the lease must be treated as ending on the earliest date with effect from which the lessor or lessee could end the lease by exercising the power.

Origin: ICTA s.780 (2).

- (3) In subsections (1) and (2) the meaning of the lessee is extended by section 27 (lessee includes partners and associates).

Origin: ICTA s.780(7).

23 Position where lease may be varied [j327]

- (1) This section applies if under the new lease the lessee has power to vary the lessee's obligations under the lease in a manner beneficial to the lessee.

Origin: ICTA s.780(2).

- (2) The term of the lease must be treated as ending on the earliest date with effect from which the lessee could vary the obligations by exercising the power.

Origin: ICTA s.780(2).

- (3) In subsections (1) and (2) the meaning of the lessee is extended by section 27 (lessee includes partners and associates).

Origin: ICTA s.780(7).

24 Lease treated as ending: rentcharge [j318]

- (1) Subsection (2) applies if a rentcharge payable by the lessee is secured on all or part of the property subject to the new lease.

Origin: ICTA s.780(2).

- (2) For the purposes of sections 21 to 23 the rent payable under the new lease must be treated as equal to the sum of the rentcharge and the rent payable under the lease.

Origin: ICTA s.780(2).

- (3) In subsection (1) the meaning of the lessee is extended by section 27 (lessee includes partners and associates).

Origin: ICTA s.780(7).

Lease varied to provide for increased rent

25 Lease varied to provide for increased rent [j321]

- (1) This section applies if each of conditions A to D is met.

Origin: ICTA s.780(6).

- (2) Condition A is that—

- (a) a company (the lessee) is a lessee of land under a lease which has 50 years or less to run (the original lease), and

- (b) the lessee is entitled in respect of the rent under the original lease to a deduction by way of relevant corporation tax relief.

Origin: ICTA s.780(6).

- (3) Condition B is that (by agreement with the landlord) the lessee varies the original lease.

Origin: ICTA s.780(6).

- (4) Condition C is that under the variation—
 - (a) the lessee agrees to pay a rent greater than that payable under the original lease, and
 - (b) the lessee agrees to pay the greater rent in return for a consideration which would not (apart from this Chapter) be taxable except as capital in the lessee's hands.

Origin: ICTA s.780(6).

- (5) Condition D is that under the variation the period during which the greater rent is to be paid ends 15 years or less after the date on which—
 - (a) the consideration is paid to the lessee, or
 - (b) the last instalment of the consideration is paid to the lessee (if it is paid in instalments).

Origin: ICTA s.780(6).

- (6) If this section applies the lessee must be treated for the purposes of this Chapter—
 - (a) as having surrendered the original lease for the consideration mentioned in subsection (4)(b), and
 - (b) as having been granted a new lease for a term of 15 years or less but otherwise on the terms of the original lease varied as mentioned in subsection (3).

Origin: ICTA s.780(6).

Interpretation

26 Relevant corporation tax relief [j325]

For the purposes of this Chapter each of the following is a deduction by way of relevant corporation tax relief—

- (a) a deduction in calculating profits or gains chargeable under [Schedule A],
- (b) a deduction in calculating profits or losses of a trade for corporation tax purposes,
- (c) a deduction in calculating profits or gains chargeable to corporation tax under or by virtue of any provision to which [section 834A of ICTA] applies (miscellaneous charges), or in calculating any loss for which relief is given under [section {j4551rm} of this Act] (losses from miscellaneous transactions),
- (d) a deduction under section 76 of ICTA (insurance companies), and
- (e) a deduction under section [1143] [j2000] of [the Corporation Tax Act 2009] (expenses of management of a company's investment business).

Origin: ICTA s.779(13), s.780(1); Annex 1, change [jc634].

27 Lessee includes partners and associates [j322]

- (1) References in the relevant provisions to the lessee include references to a person who is –
 - (a) a partner of the lessee,
 - (b) an associate of the lessee, or
 - (c) an associate of a partner of the lessee.

Origin: ICTA s.780(7).

- (2) “Associate” must be read in accordance with section 51 (persons controlling bodies etc).

Origin: ICTA s.780(7).

- (3) The relevant provisions are –
 - (a) section 16(4)(a),
 - (b) section 17(6)(b),
 - (c) section 22(1) and (2),
 - (d) section 23(1) and (2), and
 - (e) section 24(1).

Origin: ICTA s.780(7).

28 Lease, lessee, lessor and rent [j323]

- (1) This section applies for the purposes of this Chapter.

Origin: ICTA s.780(8); ICTA s.24(1), (6).

- (2) A reference to a lease includes a reference to –
 - (a) an agreement for a lease, and
 - (b) a tenancy.

Origin: ICTA s.780(8); ICTA s.24(1).

- (3) A reference to a lease does not include a reference to a mortgage.

Origin: ICTA s.780(8); ICTA s.24(1).

- (4) A reference to a lessee or lessor –
 - (a) is to be read in accordance with subsections (2) and (3), and
 - (b) includes a reference to the successors in title of a lessee or lessor.

Origin: ICTA s.780(8); ICTA s.24(1).

- (5) Subsection (4) has effect subject to section 27.

Origin: ICTA s.780(8).

- (6) A reference to rent includes a reference to a payment by a lessee for work to maintain or repair leased premises which the lease does not require the lessee to carry out; and “premises” here includes land.

Origin: ICTA s.780(8); ICTA s.24(1), (6).

CHAPTER 3

LEASED TRADING ASSETS

Overview

29 Overview [j358]

This Chapter provides that, in certain circumstances where a payment is made under a lease of a trading asset, corporation tax relief for the payment is restricted.

Origin: Drafting.

Application of the Chapter

30 Leased trading assets [j332]

- (1) This Chapter applies to a payment if –
- (a) condition A is met, and
 - (b) condition B or C is met.

Origin: ICTA s.782(1).

- (2) Condition A is that –
- (a) the payment is made by a company under a lease of a relevant asset,
 - (b) a deduction is allowed for the payment in calculating the profits of a trade for corporation tax purposes, and
 - (c) in making the calculation in accordance with generally accepted accounting practice, a calculation is made of the deduction allowed for the payment (as constituting an expense to be brought into account).

Origin: ICTA s.782(1); Annex 1, change [jc634]; Annex 1, change [jc603].

- (3) Condition B is that –
- (a) at a time before the lease's creation the asset was used for the purposes of the trade,
 - (b) when it was so used it was owned by the company, and
 - (c) when it was so used the company was carrying on the trade.

Origin: ICTA s.782(1); Annex 1, change [jc634].

- (4) Condition C is that –
- (a) at a time before the lease's creation the asset was used for the purposes of another trade,
 - (b) when it was so used it was owned by the company,
 - (c) when it was so used the company was carrying on the other trade, and
 - (d) when it was so used or later the company was carrying on the trade mentioned in subsection (2).

Origin: ICTA s.782(1); Annex 1, change [jc634].

- (5) This section is subject to section 31.

Origin: Drafting.

31 Long funding finance leases [j333]

This Chapter does not apply to a payment so far as, in the case of the lessee, it is to be regarded in accordance with Chapter 6A of Part 2 of CAA 2001 as a payment under a lease which is a long funding finance lease for the purposes of that Part.

Origin: ICTA s.782(1A).

Relief: restriction and carrying forward

32 Tax deduction not to exceed commercial rent [j334]

The deduction allowed for the payment must not exceed the commercial rent of the asset for the period for which the payment is made.

Origin: ICTA s.782(2).

33 Carrying forward parts of payments [j335]

- (1) This section applies if conditions A and B are met.

Origin: Drafting.

- (2) Condition A is that, in calculating the profits of a trade for corporation tax purposes, a deduction which would otherwise be allowed is under section 32 not allowed for part of a payment.

Origin: ICTA s.782(3); Annex 1, change [jc634].

- (3) Condition B is that one or more later payments are made by the same company under the same lease.

Origin: ICTA s.782(3).

- (4) The part of the payment mentioned in subsection (2) may be carried forward and treated in calculating the profits of the trade for corporation tax purposes as if it were made –

- (a) when the next of the later payments is made, and
- (b) for the period for which that later payment is made.

Origin: ICTA s.782(3); Annex 1, change [jc634].

- (5) So far as, in calculating the profits of the trade for corporation tax purposes, a deduction is not allowed for part of a payment carried forward under this section, it may again be carried forward under this section.

Origin: ICTA s.782(4); Annex 1, change [jc634].

Supplementary provisions about payments

34 Aggregation and apportionment of payments [j336]

- (1) This section applies for the purposes of section 32.

Origin: ICTA s.782(4).

- (2) If more than one payment is made for the same period, the payments must be taken together.

Origin: ICTA s.782(4).

- (3) If payments are made for periods which overlap –
 - (a) the payments must be apportioned, and
 - (b) the apportioned payments which belong to the common part of the overlapping periods must be taken together.

Origin: ICTA s.782(4).

- (4) References in subsections (2) and (3) to payments include references to parts of payments which under section 33 are treated as if made later than they were made.

Origin: ICTA s.782(4).

35 Payments made for later periods [j337]

- (1) This section applies for the purposes of this Chapter.

Origin: ICTA s.782(5).

- (2) For the purposes of this section the relevant year (in relation to a payment) is the year which begins with the date it is made.

Origin: ICTA s.782(5).

- (3) If a payment is made for a period all of which is after the relevant year, it must be treated as made for that year.

Origin: ICTA s.782(5).

- (4) If a payment is made for a period part of which is after the relevant year, it must be treated as if a corresponding part of it was made for that year (and no part for a later period).

Origin: ICTA s.782(5).

Interpretation

36 Commercial rent [j338]

- (1) This section applies for the purpose of comparing under section 32 –
 - (a) a payment, or payments taken together, under a lease (the actual lease), and
 - (b) the commercial rent of the asset.

Origin: ICTA s.782(6).

- (2) The commercial rent is the rent which might at the relevant time be expected to be paid under a lease of the asset if –
 - (a) the lease were for the rest of the asset's expected normal working life,
 - (b) the rent were payable at uniform intervals and at a uniform rate, and
 - (c) the rent gave a reasonable return for the asset's market value at the relevant time, taking account of the actual lease's terms and conditions.

Origin: ICTA s.782(6).

- (3) The relevant time is the time when the actual lease was created.

Origin: ICTA s.782(6).

- (4) An asset's expected normal working life is the period which might be expected, when it is first put into use, to pass before it is finally put out of use as being unfit for further use.

Origin: ICTA s.782(6).

- (5) In applying subsection (4) it must be assumed that the asset will be used in the normal way, and to the normal extent, throughout the period.

Origin: ICTA s.782(6).

37 Lease [j355]

- (1) This section applies for the purposes of this Chapter.

Origin: Drafting.

- (2) A lease is (in relation to an asset) an agreement or arrangement under which payments are made for the use of or otherwise in respect of the asset.

Origin: ICTA s.785.

- (3) In particular it includes an agreement or arrangement under which the payments (or any of them) represent instalments of a purchase price or payments towards it.

Origin: ICTA s.785.

38 Relevant asset [j354]

For the purposes of this Chapter a relevant asset is any description of property or rights other than land or an interest in land.

Origin: ICTA s.785.

CHAPTER 4

LEASED ASSETS: CAPITAL SUMS

Overview

39 Overview [j357]

This Chapter provides that in certain circumstances where a payment is made under a lease of an asset, and a capital sum is obtained in respect of an interest in the asset, corporation tax is charged on an amount not greater than the capital sum.

Origin: Drafting.

Application of the Chapter

40 Application of the Chapter [j360]

This Chapter applies if –

- (a) condition A is met (see section 41), and
- (b) condition B, C, D or E is met (see section 42).

Origin: ICTA s.781(1).

41 Payment under lease [j361]

(1) Condition A is that –

- (a) a payment is made under a lease of a relevant asset, and
- (b) the payment is one for which a deduction by way of relevant tax relief is allowed.

Origin: ICTA s.781(1).

(2) Condition A is not met if Chapter 3 (leased trading assets) –

- (a) applies to the payment, or
- (b) would apply to it but for section 31 (long funding finance leases).

Origin: ICTA s.782(1).

(3) Condition A is not met if Chapter 3 of Part 12A of ITA 2007 (provision for income tax corresponding to Chapter 3 of this Part) –

- (a) applies to the payment, or
- (b) would apply to it but for section 681CC of that Act (long funding finance leases).

Origin: ICTA s.782(1).

42 Sum obtained [j362]

(1) Condition B is that the person making the payment –

- (a) obtains a capital sum in respect of the lessee's interest in the lease, and
- (b) is a company within the charge to corporation tax.

Origin: ICTA s.781(1); drafting.

(2) Condition C is that an associate of the person making the payment –

- (a) obtains a capital sum by way of consideration in respect of the lessee's interest in the lease, and
- (b) is a company within the charge to corporation tax.

Origin: ICTA s.781(1), s.783(3); drafting.

(3) Condition D is that –

- (a) the lessor's interest in the lease, or any other interest in the asset, belongs to an associate of the person making the payment,
- (b) the associate obtains a capital sum in respect of the interest, and
- (c) the associate is a company within the charge to corporation tax.

Origin: ICTA s.781(1); drafting.

- (4) Condition E is that—
- (a) the lessor's interest in the lease, or any other interest in the asset, belongs to an associate of the person making the payment,
 - (b) an associate of that associate obtains a capital sum by way of consideration in respect of the interest, and
 - (c) the associate obtaining the sum is a company within the charge to corporation tax.

Origin: ICTA s.781(1), s.783(3); drafting.

- (5) Condition B, C, D or E may be met before, at or after the time when the payment is made.

Origin: ICTA s.781(1).

- (6) Condition B or C is not met if—
- (a) the lease is a hire-purchase agreement for plant or machinery, and
 - (b) the capital sum is required to be brought into account as the whole or part of the disposal value of the plant or machinery under section 68 of CAA 2001.

Origin: ICTA s.781(9).

- (7) Condition D or E is not met if—
- (a) the capital sum is obtained in respect of the lessee's interest in the lease,
 - (b) the lease is a hire-purchase agreement for plant or machinery, and
 - (c) the capital sum is required to be brought into account as the whole or part of the disposal value of the plant or machinery under section 68 of CAA 2001.

Origin: ICTA s.781(9).

Charge to corporation tax

43 Charge to corporation tax [j329]

- (1) The company obtaining the capital sum is to be treated as receiving, at the time the sum is obtained, an amount—
- (a) which is equal to the chargeable amount, and
 - (b) to which the charge to corporation tax on income applies.

Origin: ICTA s.781(1); drafting.

- (2) The chargeable amount is—
- (a) the amount of the payment for which a deduction by way of relevant tax relief is allowed, or
 - (b) the total amount of such payments (if more than one).

Origin: ICTA s.781(1); drafting.

- (3) But subsections (1) and (2) have effect subject to—
- (a) subsections (4) to (7), and
 - (b) section 44(3) (hire-purchase agreements).

Origin: Drafting.

- (4) The chargeable amount is not to exceed the capital sum (but see section 44(4)).

Origin: ICTA s.781(2); drafting.

- (5) Subsection (6) applies if—
- (a) the charge to corporation tax on income is applied by this section in respect of a capital sum, and
 - (b) a payment or part of a payment is taken into account in deciding the chargeable amount in respect of the sum.

Origin: ICTA s.781(6); drafting.

- (6) The payment or part must be left out of account in deciding—
- (a) whether the charge to corporation tax on income is to be applied by this section in respect of another capital sum, and
 - (b) the chargeable amount in respect of the other sum (if the charge is to be applied in respect of the other sum).

Origin: ICTA s.781(6); drafting.

- (7) The order in which subsections (5) and (6) are applied is the order in which capital sums are obtained.

Origin: ICTA s.781(6).

44 Hire-purchase agreements [j349]

- (1) This section applies if—
- (a) the lease is a hire-purchase agreement (as defined in section 56), and
 - (b) the capital sum is obtained in respect of the lessee's interest in the lease (whether it is obtained by the person making the payment or by an associate).

Origin: ICTA s.784(1).

- (2) Find the total of these amounts—
- (a) so much of any payment made under the lease by the company obtaining the capital sum as is not a payment for which a deduction by way of relevant tax relief is allowed, and
 - (b) if the lessee's interest was assigned to the company obtaining the capital sum, any capital payment made by that company as consideration for the assignment.

Origin: ICTA s.784(2).

- (3) If the total of the amounts found under subsection (2) is equal to or greater than the capital sum, the charge to corporation tax on income is not applied by section 43 in respect of the capital sum.

Origin: ICTA s.784(3).

- (4) If the total of those amounts is less than the capital sum, in applying section 43(4) that total must be deducted from the capital sum.

Origin: ICTA s.784(1).

- (5) If the capital sum is the consideration for part only of the lessee's interest in the lease—

- (a) any amount found under subsection (2) (and still unallowed) must be reduced to a just and reasonable proportion of it, and
- (b) in calculating that proportion account must be taken of the degree to which the payments mentioned in subsection (2) have contributed to the value of what is disposed of in return for the capital sum.

Origin: ICTA s.784(4); Annex 1, change [jc604].

- (6) Subsection (7) applies if—
 - (a) more than one capital sum is (or is treated as) obtained by the same company in respect of the lessee’s interest in the lease, and
 - (b) in arriving at a total under subsection (2) a payment is taken into account in respect of one of the capital sums.

Origin: ICTA s.784(5).

- (7) So far as the payment is so taken into account it must not be taken into account in applying subsection (2) to another of the capital sums.

Origin: ICTA s.784(5).

- (8) The order in which subsections (6) and (7) are applied is the order in which capital sums are obtained.

Origin: ICTA s.784(5).

45 Adjustments where sum obtained before payment made [j331]

- (1) This section applies if a capital sum is obtained as mentioned in section 42 and later a payment is made as mentioned in section 41.

Origin: ICTA s.781(7).

- (2) Adjustments must be made if they are needed to give effect to the application by section 43 of the charge to corporation tax on income in respect of the capital sum.

Origin: ICTA s.781(7); drafting.

- (3) An adjustment may be made within the period of 6 years which starts at the end of the accounting period in which the payment is made.

Origin: ICTA s.781(8), (8A).

- (4) Subsection (3) applies despite any time limit specified in the Corporation Tax Acts.

Origin: ICTA s.781(8).

Obtaining of sum

46 Sum obtained in respect of interest [j363]

A reference in this Chapter to a sum obtained in respect of an interest in an asset (whether the lessee’s interest in a lease of the asset or the lessor’s interest or any other interest) includes a reference to—

- (a) insurance money obtained in respect of the interest, and

- (b) sums representing money or money's worth obtained in respect of the interest by a transaction or series of transactions disposing of it.

Origin: ICTA s.783(1), (2).

47 Sum obtained in respect of lessee's interest [j341]

- (1) This section applies to a reference in this Chapter to a sum obtained in respect of the lessee's interest in a lease of an asset.

Origin: ICTA s.783(1).

- (2) The reference includes a reference to sums representing the consideration in money or money's worth obtained on any of the following occasions –
 - (a) a surrender of the interest to the lessor,
 - (b) an assignment of the lease, and
 - (c) the creation of a sublease or another interest out of the lease.

Origin: ICTA s.783(1).

- (3) The reference also includes a reference to sums representing money or money's worth obtained in respect of the interest by a transaction or series of transactions under which the lessee's rights are merged in any way with the lessor's rights or with any other rights as respects the asset.

Origin: ICTA s.783(2).

- (4) Subsection (3) applies so far as the money or money's worth is attributable to the lessee's rights under the lease.

Origin: ICTA s.783(2).

48 Disposal of interest to associate [j344]

- (1) This section applies for the purposes of this Chapter if a company disposes of an interest in an asset to a person who is the company's associate (and the interest may be the lessee's interest in a lease of the asset or the lessor's interest or any other interest).

Origin: ICTA s.781(1), s.783(4).

- (2) The company disposing of the interest must be treated as obtaining in respect of it the greatest of these –
 - (a) the sum in fact obtained by the company,
 - (b) the value of the interest in the open market,
 - (c) the value of the interest to the person to whom it is in effect transferred.

Origin: ICTA s.783(4).

- (3) The disposal –
 - (a) may be direct or indirect, and
 - (b) may be effected by a transaction or series of transactions described in section 46(b) or 47(3).

Origin: ICTA s.783(5).

*Apportionment***49 Apportionment of payments made and of sums obtained [j345]**

- (1) This section applies for the purposes of this Chapter.
Origin: Drafting.
- (2) Subsection (3) applies if—
 - (a) a payment is made,
 - (b) it is one for which a deduction by way of relevant tax relief is allowed, and
 - (c) it is made by persons carrying on a trade, profession or vocation in partnership.
Origin: ICTA s.783(8).
- (3) The payment must be apportioned in a manner which is just and reasonable.
Origin: ICTA s.783(8); Annex 1, change [jc604].
- (4) Subsection (5) applies if—
 - (a) a sum is obtained in respect of an interest in an asset,
 - (b) the sum is obtained by persons carrying on a trade in partnership, and
 - (c) the asset is and continues to be used for the purposes of the trade.
Origin: ICTA s.783(6); Annex 1, change [jc634].
- (5) The sum must be apportioned between the partners in the shares in which they are entitled to the profits of the trade at the time the sum is obtained.
Origin: ICTA s.783(6); Annex 1, change [jc634].
- (6) Subsection (7) applies if—
 - (a) a sum is obtained in respect of an interest in an asset, and
 - (b) the sum is obtained by persons jointly entitled to the interest.
Origin: ICTA s.783(7).
- (7) The sum must be apportioned according to their respective rights in the interest.
Origin: ICTA s.783(7).
- (8) Subsections (6) and (7) are subject to subsections (4) and (5).
Origin: ICTA s.783(7).

50 Manner of apportionment [j346]

- (1) This section applies if—
 - (a) a payment or sum is to be apportioned under section 49,
 - (b) at the time of the apportionment it appears that it is material to the liability to corporation tax (for whatever period) of two or more companies, and
 - (c) a question arises as to the manner in which the payment or sum is to be apportioned.

Origin: ICTA s.783(9).

- (2) For the purposes of corporation tax of all the companies the question must be decided by [the tribunal].

Origin: ICTA s.783(9).

- (3) The tribunal must decide the question in the manner it would be decided if it were an appeal, except that all the companies may –
 - (a) appear and be heard, or
 - (b) make written representations.

Origin: ICTA s.783(9).

Interpretation

51 Associates [j347]

- (1) This section applies for the purposes of this Chapter.

Origin: Drafting.

- (2) Persons are associates if they are associated with each other.

Origin: ICTA s.783(10).

- (3) These persons are associated with each other –
 - (a) an individual and the individual's spouse or civil partner or relative,
 - (b) an individual and a spouse or civil partner of a relative of the individual,
 - (c) an individual and a relative of the individual's spouse or civil partner,
 - (d) an individual and a spouse or civil partner of a relative of the individual's spouse or civil partner.

Origin: ICTA s.783(10).

- (4) These persons are associated with each other –
 - (a) a person as trustee of a settlement and an individual who (in relation to the settlement) is a settlor,
 - (b) a person as trustee of a settlement and a person associated with an individual who (in relation to the settlement) is a settlor.

Origin: ICTA s.783(10).

- (5) These persons are associated with each other –
 - (a) a person and a body of persons of which the person has control,
 - (b) a person and a body of persons of which persons associated with the person have control,
 - (c) a person and a body of persons of which the person and persons associated with the person have control,
 - (d) two or more bodies of persons associated with the same person under paragraphs (a) to (c).

Origin: ICTA s.783(10).

- (6) In relation to a disposal by joint owners, the joint owners and any person associated with any of them are associated with each other.

Origin: ICTA s.783(10).

- (7) For the purposes of this section –
- (a) a relative is a brother, sister, ancestor or lineal descendant,
 - (b) a body of persons includes a partnership,
 - (c) “settlement” and “settlor” have the meanings given by section 620 of ITTOIA 2005, and
 - (d) “control” has the meaning given by [section 840 of ICTA].

Origin: ICTA s.783(10), (11).

52 Capital sum [j352]

For the purposes of this Chapter a capital sum is any sum of money, or any money’s worth, except so far as it or any part of it –

- (a) is to be treated for corporation tax purposes as a receipt to be taken into account in calculating the profits or losses of a trade, or
- (b) is (apart from this Chapter) chargeable to corporation tax under or by virtue of any provision to which [section 834A of ICTA] applies (miscellaneous charges).

Origin: ICTA s.785; Annex 1, change [jc634].

53 Lease [j353]

- (1) This section applies for the purposes of this Chapter.

Origin: Drafting.

- (2) A lease is (in relation to an asset) an agreement or arrangement under which payments are made for the use of or otherwise in respect of the asset.

Origin: ICTA s.785.

- (3) In particular it includes an agreement or arrangement under which the payments (or any of them) represent instalments of a purchase price or payments towards it.

Origin: ICTA s.785.

54 Relevant asset [j351]

For the purposes of this Chapter a relevant asset is any description of property or rights other than land or an interest in land.

Origin: ICTA s.785.

55 Relevant tax relief [j330]

For the purposes of this Chapter each of the following is a deduction by way of relevant tax relief –

- (a) a deduction in calculating profits or losses of a trade for corporation tax purposes,
- (b) a deduction in calculating profits or gains chargeable to corporation tax under or by virtue of any provision to which [section 834A of ICTA] applies (miscellaneous charges), or in calculating any loss for which

- relief is given under [section [j4551rm](#)] of this Act] (losses from miscellaneous transactions),
- (c) a deduction under section 76 of ICTA (insurance companies),
 - (d) a deduction under section [1143] [j2000](#)] of [the Corporation Tax Act 2009] (expenses of management of a company's investment business),
 - (e) a deduction in calculating profits or losses of a trade, profession or vocation for income tax purposes,
 - (f) a deduction in calculating profits or other income or gains chargeable to income tax under or by virtue of any provision to which section 1016 of ITA 2007 applies, or in calculating any loss for which relief is allowed under section 152 of that Act (losses from miscellaneous transactions), and
 - (g) a deduction from earnings allowed under section 336 of ITEPA 2003 (expenses) or allowed in calculating losses in an employment for income tax purposes.

Origin: ICTA s.781(4); Annex 1, change [jc634](#)].

56 Meaning of “hire-purchase agreement” [j350](#)

- (1) This section applies for the purposes of the provisions of the Corporation Tax Acts which apply this section.

Origin: ICTA s.784(6); drafting.

- (2) A hire-purchase agreement is an agreement in whose case each of conditions A to C is met.

Origin: ICTA s.784(6).

- (3) Condition A is that under the agreement goods are bailed (or in Scotland hired) in return for periodical payments by the person to whom they are bailed (or hired).

Origin: ICTA s.784(6).

- (4) Condition B is that under the agreement the property in the goods will pass to the person to whom they are bailed (or hired) if the terms of the agreement are complied with and one or more of the following events occurs –

- (a) the exercise of an option to purchase by that person,
- (b) the doing of another specified act by any party to the agreement,
- (c) the happening of another specified event.

Origin: ICTA s.784(6).

- (5) Condition C is that the agreement is not a conditional sale agreement.

Origin: ICTA s.784(6).

- (6) In subsection (5) “conditional sale agreement” means an agreement for the sale of goods under which –

- (a) the purchase price or part of it is payable by instalments, and
- (b) the property in the goods is to remain in the seller (even though they are to be in the possession of the buyer) until conditions specified in the agreement are met (whether as to the payment of instalments or otherwise).

Origin: ICTA s.784(6).

- (7) [In section [58] [j031401a] of [the Corporation Tax Act 2009] (car or motor cycle hire: supplementary) –
- (a) in subsection (2)(a) omit “(see subsections (3) to (7))”, and
 - (b) for subsections (3) to (7) substitute –
 - “(3) For this purpose “hire-purchase agreement” has the meaning given by section 56 of [Bill 6].”]

SCHEDULE

SALE AND LEASE-BACK ETC: NEW PART 12A OF ITA 2007 [j300ASCH]

- 1 ITA 2007 is amended as follows.
- 2 After section 681 insert –

“PART 12A

SALE AND LEASE-BACK ETC

CHAPTER 1

PAYMENTS CONNECTED WITH TRANSFERRED LAND

Overview

681A Overview

This Chapter provides that in certain circumstances where a transfer is made regarding land, and the transferor or an associate becomes liable to make a payment connected with the land, income tax relief for the payment is restricted.

Application of the Chapter

681AA Transferor or associate becomes liable for payment of rent

- (1) This Chapter has effect if –
 - (a) land or an estate or interest in land is transferred,
 - (b) the transferor or a person associated with the transferor becomes liable to make a payment,
 - (c) the payment is a payment of rent under a lease of the land or part of it, and
 - (d) either –
 - (i) the payment is one for which a deduction within section 681AH(a) to (c) is allowed and, in making a calculation for income tax purposes in accordance with generally accepted accounting practice, a calculation is made of the deduction (as constituting an expense to be brought into account), or
 - (ii) the payment is one for which a deduction within section 681AH(d) is allowed.
- (2) The reference in subsection (1)(a) to a transfer of an estate or interest in land includes a reference to any of the following –
 - (a) the granting of a lease or another transaction involving the creation of a new estate or interest in the land,

- (b) the transfer of the lessee's interest under a lease by surrender or forfeiture of the lease, and
 - (c) a transaction or series of transactions affecting land or an estate or interest in land, such that some person is the owner or one of the owners before and after the transaction or transactions but another person becomes or ceases to be one of the owners.
- (3) In relation to a transaction or series of transactions mentioned in subsection (2)(c), a person is to be regarded as a transferor for the purposes of this Chapter if the person –
- (a) is an owner before the transaction or transactions, and
 - (b) is not the sole owner afterwards.
- (4) The liability mentioned in subsection (1)(b) is one resulting from –
- (a) a lease of the land or part of it granted (at the time of the transfer or later) by the transferee to the transferor, or
 - (b) another transaction or series of transactions affecting the land or an estate or interest in it.
- (5) The liability mentioned in subsection (1)(b) is one arising at the time of the transfer or later.

681AB Transferor or associate becomes liable for payment other than rent

- (1) This Chapter has effect if –
- (a) land or an estate or interest in land is transferred,
 - (b) the transferor or a person associated with the transferor becomes liable to make a payment,
 - (c) the payment is not a payment of rent under a lease but is otherwise connected with the land or part of it (whether it is a payment under a rentcharge or under some other transaction), and
 - (d) either –
 - (i) the payment is one for which a deduction within section 681AH(a) to (c) is allowed and, in making a calculation for income tax purposes in accordance with generally accepted accounting practice, a calculation is made of the deduction (as constituting an expense to be brought into account), or
 - (ii) the payment is one for which a deduction within section 681AH(d) is allowed.
- (2) The reference in subsection (1)(a) to a transfer of an estate or interest in land includes a reference to any of the following –
- (a) the granting of a lease or another transaction involving the creation of a new estate or interest in the land,
 - (b) the transfer of the lessee's interest under a lease by surrender or forfeiture of the lease, and
 - (c) a transaction or series of transactions affecting land or an estate or interest in land, such that some person is the owner or one of the owners before and after the transaction or transactions but another person becomes or ceases to be one of the owners.

- (3) In relation to a transaction or series of transactions mentioned in subsection (2)(c), a person is to be regarded as a transferor for the purposes of this Chapter if the person –
 - (a) is an owner before the transaction or transactions, and
 - (b) is not the sole owner afterwards.
- (4) The liability mentioned in subsection (1)(b) is one resulting from a transaction or series of transactions affecting the land or an estate or interest in it.
- (5) The liability mentioned in subsection (1)(b) is one arising at the time of the transfer or later.

Relief: restriction and carrying forward

681AC Income tax deduction not to exceed commercial rent

- (1) If this Chapter has effect under section 681AA, this section applies to a payment within section 681AA(1).
- (2) If this Chapter has effect under section 681AB, this section applies to a payment within section 681AB(1).
- (3) The deduction allowed for the payment must not exceed the commercial rent (for the period for which the payment is made) of the land in respect of which the payment is made.

681AD Carrying forward parts of payments

- (1) This section applies if conditions A and B are met.
- (2) Condition A is that under section 681AC part of a payment which would otherwise be allowed as a deduction by way of relevant income tax relief is not allowed.
- (3) Condition B is that one or more later payments are made by the transferor or a person associated with the transferor under –
 - (a) the lease (if this Chapter has effect under section 681AA), or
 - (b) the rentcharge or other transaction mentioned in section 681AB(1)(c) (if this Chapter has effect under section 681AB).
- (4) The part of the payment mentioned in subsection (2) may be carried forward and treated for the purposes of a deduction by way of relevant income tax relief as if it were made –
 - (a) when the next of the later payments is made, and
 - (b) for the period for which that later payment is made.
- (5) So far as a part of a payment carried forward under this section is not allowed as a deduction by way of relevant income tax relief, it may be carried forward again under this section.

Supplementary provisions about payments

681AE Aggregation and apportionment of payments

- (1) This section applies for the purposes of section 681AC.

- (2) If more than one payment is made for the same period, the payments must be taken together.
- (3) If payments are made for periods which overlap –
 - (a) the payments must be apportioned, and
 - (b) the apportioned payments which belong to the common part of the overlapping periods must be taken together.
- (4) References in subsections (2) and (3) to payments include references to parts of payments which under section 681AD are treated as if made later than they were made.

681AF Exclusion of service charges etc

- (1) This section applies for the purposes of section 681AC.
- (2) A payment must be excluded so far as it is in respect of any of the following –
 - (a) services,
 - (b) the use of relevant assets, and
 - (c) rates usually borne by the tenant.
- (3) The amount excluded must be just and reasonable.
- (4) If a lease or agreement contains provisions fixing the payments or parts of payments which are in respect of services or the use of assets, those provisions are not conclusive.
- (5) A relevant asset is any description of property or rights other than land or an interest in land.

681AG Payments made for later periods

- (1) This section applies for the purposes of this Chapter.
- (2) For the purposes of this section the relevant year (in relation to a payment) is the year which begins with the date it is made.
- (3) If a payment is made for a period all of which is after the relevant year, it must be treated as made for that year.
- (4) If a payment is made for a period part of which is after the relevant year, it must be treated as if a corresponding part of it was made for that year (and no part for a later period).

Interpretation etc

681AH Relevant income tax relief

For the purposes of this Chapter each of the following is a deduction by way of relevant income tax relief –

- (a) a deduction in calculating the profits of a UK property business [for income tax purposes],
- (b) a deduction in calculating profits or losses of a trade, profession or vocation for income tax purposes,
- (c) a deduction in calculating profits or other income or gains chargeable to income tax under or by virtue of any provision to which section 1016 applies, or in calculating any loss for

- which relief is allowed under section 152 (losses from miscellaneous transactions), and
- (d) a deduction from earnings allowed under section 336 of ITEPA 2003 (expenses) or allowed in calculating losses in an employment for income tax purposes.

681AI Commercial rent: comparison with rent under a lease

- (1) This section applies for the purpose of comparing under section 681AC(1) and (3) –
 - (a) a payment, or payments taken together, of rent under a lease (the actual lease), and
 - (b) the commercial rent of the land.
- (2) The commercial rent is the rent which might be expected to be paid under a lease of the land which –
 - (a) was negotiated in the open market when the actual lease was created,
 - (b) is of the same duration as the actual lease,
 - (c) is subject to the terms and conditions of the actual lease as respects liability for maintenance and repairs, and
 - (d) provides for rent payable at uniform intervals and at an appropriate rate.
- (3) Rent is payable at an appropriate rate if –
 - (a) it is payable at a uniform rate, or
 - (b) in a case where the rent payable under the actual lease is rent at a progressive rate (and such that the amount of rent payable for a year is never less than the amount payable for a previous year), it progresses by gradations proportionate to those provided by the actual lease.

681AJ Commercial rent: comparison with payments other than rent

- (1) This section applies for the purpose of comparing under section 681AC(2) and (3) –
 - (a) a payment within section 681AB(1) or such payments taken together, and
 - (b) the commercial rent of the land.
- (2) The commercial rent is the rent which might be expected to be paid under a lease of the land which –
 - (a) was negotiated in the open market when the rentcharge or other transaction mentioned in section 681AB(1)(c) was effected,
 - (b) is a tenant's repairing lease, and
 - (c) is of an appropriate duration.
- (3) A tenant's repairing lease is a lease where the lessee is under an obligation to maintain and repair the whole (or substantially the whole) of the premises comprised in the lease.
- (4) To see whether a lease is of an appropriate duration, take the period over which payments are to be made under the rentcharge or other transaction, and –

- (a) if that period is 200 years or more (or the obligation to make the payments is perpetual) an appropriate duration is 200 years, or
- (b) if that period is less than 200 years, an appropriate duration is the same duration as that period.

681AK Lease and rent

- (1) This section applies for the purposes of this Chapter.
- (2) A reference to a lease includes a reference to any of the following –
 - (a) an underlease, sublease, tenancy or licence,
 - (b) an agreement for a lease, underlease, sublease, tenancy or licence,
 - (c) in the case of land outside the United Kingdom, an interest corresponding to a lease (as defined here).
- (3) A reference to rent includes a reference to any payment under a lease.
- (4) A reference to rent under a lease includes a reference to expenses which the tenant under the lease is treated as incurring in respect of the land subject to the lease under any of –
 - (a) sections 61 to 67 of ITTOIA 2005 (land occupied for trade purposes),
 - (b) sections 292 to 297 of that Act (taxed leases).
- (5) Expenses within subsection (4) must be treated as having been paid as soon as they were incurred.

681AL Associated persons

- (1) This section applies for the purposes of this Chapter.
- (2) These persons are associated with one another –
 - (a) the transferor in a transaction within section 681AA(1) or 681AB(1) and the transferor in another such transaction, if the two persons are acting in concert or if the two transactions are in any way reciprocal, and
 - (b) any person who is an associate of either of those associated transferors.
- (3) Two or more bodies corporate are associated with one another if they participate in, or are incorporated for the purposes of, a scheme –
 - (a) for the reconstruction of any body or bodies corporate, or
 - (b) for the amalgamation of any two or more bodies corporate.
- (4) Persons are associated with one another if they are associates as defined in section 681DL (relatives, settlements, persons controlling bodies, joint owners, etc).

681AM Land outside the UK

In the case of land outside the United Kingdom, expressions in this Chapter relating to interests in land and their disposition must be taken to relate to corresponding interests and dispositions.”

Origin: ICTA s.779(1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (11), (12), (13);
Annex 1, change [jc702]; Annex 1, change [jc703]; drafting.

3 After section 681AM insert –

“CHAPTER 2

NEW LEASE AFTER ASSIGNMENT OR SURRENDER

Overview

681B Overview

- (1) This Chapter provides that in certain circumstances where a lease of land is assigned or surrendered and another lease is granted or assigned –
 - (a) consideration received for the assignment or surrender of the first lease is taxed as a receipt of a trade, profession or vocation or charged to income tax,
 - (b) tax relief is allowable for rent under the other lease.
- (2) The Chapter provides that in certain circumstances where a lease is varied it is treated as surrendered and another lease is treated as granted.

Application of the Chapter

681BA New lease after assignment or surrender

- (1) This Chapter has effect if each of conditions A to D is met.
- (2) Condition A is that –
 - (a) a person (the lessee) is a lessee of land under a lease which has 50 years or less to run (the original lease), and
 - (b) the lessee is entitled in respect of the rent under the original lease to a deduction by way of relevant income tax relief.
- (3) Condition B is that –
 - (a) the lessee assigns the original lease to another person or surrenders it to the lessee’s landlord, and
 - (b) the consideration for the assignment or surrender would not (apart from this Chapter) be taxable except as capital in the lessee’s hands.
- (4) Condition C is that –
 - (a) another lease (the new lease) is granted or assigned to the lessee, and
 - (b) the new lease is for a term of 15 years or less.
- (5) Condition D is that the new lease –
 - (a) is of all or part of the land which was the subject of the original lease, or
 - (b) includes all or part of the land which was the subject of the original lease.

- (6) In subsection (4)(a) the meaning of the lessee is extended by section 681BL (lessee includes partners and associates).

Taxation of consideration

681BB Taxation of consideration

- (1) An appropriate amount must be found under subsection (3) or (4) of –
- (a) the consideration received by the lessee for the assignment or surrender, or
 - (b) each instalment of the consideration (if it is paid in instalments).
- (2) For the purposes of the Income Tax Acts the appropriate amount must be treated in accordance with subsections (6) to (8) and not as a capital receipt.
- (3) If the term of the new lease is one year or less, the appropriate amount of the consideration or instalment is the whole of it.
- (4) If the term of the new lease is more than one year, the appropriate amount of the consideration or instalment is the proportion of it found by the formula –
- $$\frac{16 - N}{15}$$
- (5) In subsection (4) N is the term of the new lease expressed in years (taking part of a year as an appropriate proportion of a year).
- (6) The way the appropriate amount must be treated depends on whether these conditions are met –
- (a) the consideration is received by the lessee in the course of a trade, profession or vocation, and
 - (b) the rent payable by the lessee under the new lease is allowable as a deduction in calculating profits or losses of a trade, profession or vocation for tax purposes.
- (7) If the conditions are met the appropriate amount must be treated as a receipt of a trade, profession or vocation.
- (8) If the conditions are not met the appropriate amount must be treated as an amount chargeable to income tax.
- (9) If income tax is charged under subsection (8) –
- (a) it must be charged on the proportion of the appropriate amount arising in the tax year,
 - (b) the person liable for the tax is the lessee, and
 - (c) the amount charged must be treated for income tax purposes as an amount of income.
- (10) In subsection (6)(b) the meaning of the lessee is extended by section 681BL (lessee includes partners and associates).

681BC Position where new lease does not include all original property

- (1) This section applies for the purposes of section 681BB if the property which is the subject of the new lease does not include all the property which was the subject of the original lease.
- (2) The consideration received by the lessee must be treated as reduced to the portion of it found under subsection (3).
- (3) The portion is that which is reasonably attributable to such part of the original property as –
 - (a) consists of the property which is the subject of the new lease, or
 - (b) is included in the property which is the subject of the new lease.
- (4) The original property is the property which was the subject of the original lease.

Relief for rent under new lease

681BD Relief for rent under new lease

- (1) This section applies if the rent under the new lease is payable by a person within the charge to income tax.
- (2) This section also applies if –
 - (a) Chapter 2 of Part [12] of [Bill 6] has effect (provision for corporation tax corresponding to this Chapter), and
 - (b) the rent under the new lease is payable by a person within the charge to income tax.
- (3) The provisions of [ITTOIA 2005] providing for deductions or allowances by way of income tax relief in respect of payments of rent apply in relation to the rent under the new lease.
- (4) In subsection (2) and in subsection (3) as applied by subsection (2) references to the new lease and rent are to be read as in Chapter 2 of Part [12] of [Bill 6].

New lease treated as ending

681BE New lease treated as ending

- (1) Sections 681BF to 681BH treat the new lease as ending in certain circumstances for the purposes of this Chapter.
- (2) If any of those provisions apply in a given case, and the new lease is treated as ending on different dates, it must be treated as ending on the earlier or earliest of them.

681BF Position where rent reduces

- (1) If the rent for a relevant period exceeds the rent for the following comparable period, the term of the new lease must be treated as ending on the date when the relevant period ends.
- (2) For the purposes of this section –

- (a) a relevant period is a rental period of the new lease ending before its fifteenth anniversary,
 - (b) the following comparable period (in relation to a relevant period) is the rental period which is of the same duration as the relevant period and which begins on the day following the end of the relevant period,
 - (c) the rent for a period is the total rent payable under the new lease in respect of the period,
 - (d) a rental period is a period in respect of which a payment of rent is to be made, and
 - (e) the fifteenth anniversary of the new lease is the fifteenth anniversary of the date on which its term begins.
- (3) For the purposes of this section –
- (a) all rental periods of a quarter must be treated as being of the same duration, and
 - (b) all rental periods of a month must be treated as being of the same duration.

681BG Position where lease may be ended

- (1) This section applies if under the new lease the lessor or lessee has power to end the lease before the end of the term for which it was granted.
- (2) The term of the lease must be treated as ending on the earliest date with effect from which the lessor or lessee could end the lease by exercising the power.
- (3) In subsections (1) and (2) the meaning of the lessee is extended by section 681BL (lessee includes partners and associates).

681BH Position where lease may be varied

- (1) This section applies if under the new lease the lessee has power to vary the lessee's obligations under the lease in a manner beneficial to the lessee.
- (2) The term of the lease must be treated as ending on the earliest date with effect from which the lessee could vary the obligations by exercising the power.
- (3) In subsections (1) and (2) the meaning of the lessee is extended by section 681BL (lessee includes partners and associates).

681BI Lease treated as ending: rentcharge

- (1) Subsection (2) applies if a rentcharge payable by the lessee is secured on all or part of the property subject to the new lease.
- (2) For the purposes of sections 681BF to 681BH the rent payable under the new lease must be treated as equal to the sum of the rentcharge and the rent payable under the lease.
- (3) In subsection (1) the meaning of the lessee is extended by section 681BL (lessee includes partners and associates).

Lease varied to provide for increased rent

681BJ Lease varied to provide for increased rent

- (1) This section applies if each of conditions A to D is met.
- (2) Condition A is that—
 - (a) a person (the lessee) is a lessee of land under a lease which has 50 years or less to run (the original lease), and
 - (b) the lessee is entitled in respect of the rent under the original lease to a deduction by way of relevant income tax relief.
- (3) Condition B is that (by agreement with the landlord) the lessee varies the original lease.
- (4) Condition C is that under the variation—
 - (a) the lessee agrees to pay a rent greater than that payable under the original lease, and
 - (b) the lessee agrees to pay the greater rent in return for a consideration which would not (apart from this Chapter) be taxable except as capital in the lessee's hands.
- (5) Condition D is that under the variation the period during which the greater rent is to be paid ends 15 years or less after the date on which—
 - (a) the consideration is paid to the lessee, or
 - (b) the last instalment of the consideration is paid to the lessee (if it is paid in instalments).
- (6) If this section applies the lessee must be treated for the purposes of this Chapter—
 - (a) as having surrendered the original lease for the consideration mentioned in subsection (4)(b), and
 - (b) as having been granted a new lease for a term of 15 years or less but otherwise on the terms of the original lease varied as mentioned in subsection (3).

Interpretation

681BK Relevant income tax relief

For the purposes of this Chapter each of the following is a deduction by way of relevant income tax relief—

- (a) a deduction in calculating the profits of a UK property business [for income tax purposes],
- (b) a deduction in calculating profits or losses of a trade, profession or vocation for income tax purposes,
- (c) a deduction in calculating profits or other income or gains chargeable to income tax under or by virtue of any provision to which section 1016 applies, or in calculating any loss for which relief is allowed under section 152 (losses from miscellaneous transactions), and
- (d) a deduction from earnings allowed under section 336 of ITEPA 2003 (expenses) or allowed in calculating losses in an employment for income tax purposes.

681BL Lessee includes partners and associates

- (1) References in the relevant provisions to the lessee include references to a person who is –
 - (a) a partner of the lessee,
 - (b) an associate of the lessee, or
 - (c) an associate of a partner of the lessee.
- (2) “Associate” must be read in accordance with section 681DL (persons controlling bodies etc).
- (3) The relevant provisions are –
 - (a) section 681BA(4)(a),
 - (b) section 681BB(6)(b),
 - (c) section 681BG(1) and (2),
 - (d) section 681BH(1) and (2),
 - (e) section 681BI(1).

681BM Lease, lessee, lessor and rent

- (1) This section applies for the purposes of this Chapter.
- (2) A reference to a lease includes a reference to –
 - (a) an agreement for a lease, and
 - (b) a tenancy.
- (3) A reference to a lease does not include a reference to a mortgage.
- (4) A reference to a lessee or lessor –
 - (a) is to be read in accordance with subsections (2) and (3), and
 - (b) includes a reference to the successors in title of a lessee or lessor.
- (5) Subsection (4) has effect subject to section 681BL.
- (6) A reference to rent includes a reference to a payment by a lessee for work to maintain or repair leased premises which the lease does not require the lessee to carry out; and “premises” here includes land.
- (7) In the application of this section to Scotland “mortgage” means –
 - (a) a standard security, or
 - (b) a heritable security, as defined in the Conveyancing (Scotland) Act 1924 but including a security constituted by *ex facie* absolute disposition or assignation.”

Origin: ICTA s.779(13), s.780(1), (2), (3), (3A), (3B), (3C), (4), (6), (7), (8); ICTA s.24(1), (6); drafting.

4 After section 681BM insert –

“CHAPTER 3

LEASED TRADING ASSETS

Overview

681C Overview

This Chapter provides that, in certain circumstances where a payment is made under a lease of a trading asset, income tax relief for the payment is restricted.

Application of the Chapter

681CA Professions and vocations

In this Chapter a reference to a trade includes a reference to a profession or vocation.

681CB Leased trading assets

- (1) This Chapter applies to a payment if –
 - (a) condition A is met, and
 - (b) condition B or C is met.
- (2) Condition A is that –
 - (a) the payment is made by a person under a lease of a relevant asset,
 - (b) a deduction is allowed for the payment in calculating the profits of a trade for income tax purposes, and
 - (c) in making the calculation in accordance with generally accepted accounting practice, a calculation is made of the deduction allowed for the payment (as constituting an expense to be brought into account).
- (3) Condition B is that –
 - (a) at a time before the lease’s creation the asset was used for the purposes of the trade,
 - (b) when it was so used it was owned by the person, and
 - (c) when it was so used the person was carrying on the trade.
- (4) Condition C is that –
 - (a) at a time before the lease’s creation the asset was used for the purposes of another trade,
 - (b) when it was so used it was owned by the person,
 - (c) when it was so used the person was carrying on the other trade, and
 - (d) when it was so used or later the person was carrying on the trade mentioned in subsection (2).
- (5) This section is subject to section 681CC.

681CC Long funding finance leases

This Chapter does not apply to a payment so far as, in the case of the lessee, it is to be regarded in accordance with Chapter 6A of Part 2 of CAA 2001 as a payment under a lease which is a long funding finance lease for the purposes of that Part.

Relief: restriction and carrying forward

681CD Tax deduction not to exceed commercial rent

The deduction allowed for the payment must not exceed the commercial rent of the asset for the period for which the payment is made.

681CE Carrying forward parts of payments

- (1) This section applies if conditions A and B are met.
- (2) Condition A is that, in calculating the profits of a trade for income tax purposes, a deduction which would otherwise be allowed is under section 681CD not allowed for part of a payment.
- (3) Condition B is that one or more later payments are made by the same person under the same lease.
- (4) The part of the payment mentioned in subsection (2) may be carried forward and treated in calculating the profits of the trade for income tax purposes as if it were made –
 - (a) when the next of the later payments is made, and
 - (b) for the period for which that later payment is made.
- (5) So far as, in calculating the profits of the trade for income tax purposes, a deduction is not allowed for part of a payment carried forward under this section, it may again be carried forward under this section.

Supplementary provisions about payments

681CF Aggregation and apportionment of payments

- (1) This section applies for the purposes of section 681CD.
- (2) If more than one payment is made for the same period, the payments must be taken together.
- (3) If payments are made for periods which overlap –
 - (a) the payments must be apportioned, and
 - (b) the apportioned payments which belong to the common part of the overlapping periods must be taken together.
- (4) References in subsections (2) and (3) to payments include references to parts of payments which under section 681CE are treated as if made later than they were made.

681CG Payments made for later periods

- (1) This section applies for the purposes of this Chapter.

- (2) For the purposes of this section the relevant year (in relation to a payment) is the year which begins with the date it is made.
- (3) If a payment is made for a period all of which is after the relevant year, it must be treated as made for that year.
- (4) If a payment is made for a period part of which is after the relevant year, it must be treated as if a corresponding part of it was made for that year (and no part for a later period).

Interpretation

681CH Commercial rent

- (1) This section applies for the purpose of comparing under section 681CD—
 - (a) a payment, or payments taken together, under a lease (the actual lease), and
 - (b) the commercial rent of the asset.
- (2) The commercial rent is the rent which might at the relevant time be expected to be paid under a lease of the asset if—
 - (a) the lease were for the rest of the asset's expected normal working life,
 - (b) the rent were payable at uniform intervals and at a uniform rate, and
 - (c) the rent gave a reasonable return for the asset's market value at the relevant time, taking account of the actual lease's terms and conditions.
- (3) The relevant time is the time when the actual lease was created.
- (4) An asset's expected normal working life is the period which might be expected, when it is first put into use, to pass before it is finally put out of use as being unfit for further use.
- (5) In applying subsection (4) it must be assumed that the asset will be used in the normal way, and to the normal extent, throughout the period.

681CI Lease

- (1) This section applies for the purposes of this Chapter.
- (2) A lease is (in relation to an asset) an agreement or arrangement under which payments are made for the use of or otherwise in respect of the asset.
- (3) In particular it includes an agreement or arrangement under which the payments (or any of them) represent instalments of a purchase price or payments towards it.

681CJ Relevant asset

For the purposes of this Chapter a relevant asset is any description of property or rights other than land or an interest in land.”

Origin: ICTA s.782(1), (1A), (2), (3), (4), (5), (6), (10), s.785; Annex 1, change [jc703]; drafting.

5 After section 681CJ insert –

“CHAPTER 4

LEASED ASSETS: CAPITAL SUMS

Overview

681D Overview

This Chapter provides that in certain circumstances where a payment is made under a lease of an asset, and a capital sum is obtained in respect of an interest in the asset, income tax is charged on an amount not greater than the capital sum.

Application of the Chapter

681DA Application of the Chapter

This Chapter applies if –

- (a) condition A is met (see section 681DB), and
- (b) condition B, C, D or E is met (see section 681DC).

681DB Payment under lease

- (1) Condition A is that –
 - (a) a payment is made under a lease of a relevant asset, and
 - (b) the payment is one for which a deduction by way of relevant tax relief is allowed.
- (2) Condition A is not met if Chapter 3 (leased trading assets) –
 - (a) applies to the payment, or
 - (b) would apply to it but for section 681CC (long funding finance leases).
- (3) Condition A is not met if Chapter 3 of Part [12] of [Bill 6] (provision for corporation tax corresponding to Chapter 3 of this Part) –
 - (a) applies to the payment, or
 - (b) would apply to it but for section [j333] of that Act (long funding finance leases).

681DC Sum obtained

- (1) Condition B is that the person making the payment –
 - (a) obtains a capital sum in respect of the lessee’s interest in the lease, and
 - (b) is within the charge to income tax.
- (2) Condition C is that an associate of the person making the payment –
 - (a) obtains a capital sum by way of consideration in respect of the lessee’s interest in the lease, and
 - (b) is within the charge to income tax.
- (3) Condition D is that –

- (a) the lessor's interest in the lease, or any other interest in the asset, belongs to an associate of the person making the payment,
 - (b) the associate obtains a capital sum in respect of the interest, and
 - (c) the associate is within the charge to income tax.
- (4) Condition E is that –
- (a) the lessor's interest in the lease, or any other interest in the asset, belongs to an associate of the person making the payment,
 - (b) an associate of that associate obtains a capital sum by way of consideration in respect of the interest, and
 - (c) the associate obtaining the sum is within the charge to income tax.
- (5) Condition B, C, D or E may be met before, at or after the time when the payment is made.
- (6) Condition B or C is not met if –
- (a) the lease is a hire-purchase agreement for plant or machinery, and
 - (b) the capital sum is required to be brought into account as the whole or part of the disposal value of the plant or machinery under section 68 of CAA 2001.
- (7) Condition D or E is not met if –
- (a) the capital sum is obtained in respect of the lessee's interest in the lease,
 - (b) the lease is a hire-purchase agreement for plant or machinery, and
 - (c) the capital sum is required to be brought into account as the whole or part of the disposal value of the plant or machinery under section 68 of CAA 2001.

Charge to income tax

681DD Charge to income tax

- (1) The person obtaining the capital sum is charged to income tax, for the tax year in which the sum is obtained, on the amount given by subsection (2).
- (2) That amount is –
 - (a) the amount of the payment for which a deduction by way of relevant tax relief is allowed, or
 - (b) the total amount of such payments (if more than one).
- (3) But subsections (1) and (2) have effect subject to –
 - (a) subsections (4) to (7), and
 - (b) section 681DE(3) (hire-purchase agreements).
- (4) The amount on which tax is charged under this section is not to exceed the capital sum obtained (but see section 681DE(4)).
- (5) Subsection (6) applies if –

- (a) income tax is charged under this section in respect of a capital sum, and
 - (b) a payment or part of a payment is taken into account in deciding the amount on which the tax is charged.
- (6) The payment or part must be left out of account in deciding –
- (a) whether income tax is to be charged under this section in respect of another capital sum, and
 - (b) the amount on which the tax is to be charged (if any is to be charged).
- (7) The order in which subsections (5) and (6) are applied is the order in which capital sums are obtained.
- (8) An amount on which income tax is charged under this section is treated for income tax purposes as an amount of income.

681DE Hire-purchase agreements

- (1) This section applies if –
- (a) the lease is a hire-purchase agreement (as defined in section 681DQ), and
 - (b) the capital sum is obtained in respect of the lessee's interest in the lease (whether it is obtained by the person making the payment or by an associate).
- (2) Find the total of these amounts –
- (a) so much of any payment made under the lease by the person obtaining the capital sum as is not a payment for which a deduction by way of relevant tax relief is allowed, and
 - (b) if the lessee's interest was assigned to the person obtaining the capital sum, any capital payment made by that person as consideration for the assignment.
- (3) If the total of the amounts found under subsection (2) is equal to or greater than the capital sum, income tax is not charged under section 681DD in respect of the capital sum.
- (4) If the total of those amounts is less than the capital sum, in applying section 681DD(4) that total must be deducted from the capital sum.
- (5) If the capital sum is the consideration for part only of the lessee's interest in the lease –
- (a) any amount found under subsection (2) (and still unallowed) must be reduced to a just and reasonable proportion of it, and
 - (b) in calculating that proportion account must be taken of the degree to which the payments mentioned in subsection (2) have contributed to the value of what is disposed of in return for the capital sum.
- (6) Subsection (7) applies if –
- (a) more than one capital sum is (or is treated as) obtained by the same person in respect of the lessee's interest in the lease, and
 - (b) in arriving at a total under subsection (2) a payment is taken into account in respect of one of the capital sums.

- (7) So far as the payment is so taken into account it must not be taken into account in applying subsection (2) to another of the capital sums.
- (8) The order in which subsections (6) and (7) are applied is the order in which capital sums are obtained.
- (9) If the capital sum is obtained by the personal representatives of a deceased person, the reference in subsection (2)(a) to any payment made under the lease by the person obtaining the capital sum includes any payment made under the lease by the deceased.

681DF Adjustments where sum obtained before payment made

- (1) This section applies if a capital sum is obtained as mentioned in section 681DC and later a payment is made as mentioned in section 681DB.
- (2) Adjustments must be made if they are needed to give effect to a charge to income tax under section 681DD in respect of the capital sum.
- (3) An adjustment may be made within the period ending with the fifth anniversary of the 31 January following the tax year in which the payment is made.
- (4) Subsection (3) applies despite any time limit specified in the Income Tax Acts.

Obtaining of sum

681DG Sum obtained in respect of interest

A reference in this Chapter to a sum obtained in respect of an interest in an asset (whether the lessee's interest in a lease of the asset or the lessor's interest or any other interest) includes a reference to—

- (a) insurance money obtained in respect of the interest, and
- (b) sums representing money or money's worth obtained in respect of the interest by a transaction or series of transactions disposing of it.

681DH Sum obtained in respect of lessee's interest

- (1) This section applies to a reference in this Chapter to a sum obtained in respect of the lessee's interest in a lease of an asset.
- (2) The reference includes a reference to sums representing the consideration in money or money's worth obtained on any of the following occasions—
 - (a) a surrender of the interest to the lessor,
 - (b) an assignment of the lease, and
 - (c) the creation of a sublease or another interest out of the lease.
- (3) The reference also includes a reference to sums representing money or money's worth obtained in respect of the interest by a transaction or series of transactions under which the lessee's rights are merged in any way with the lessor's rights or with any other rights as respects the asset.

- (4) Subsection (3) applies so far as the money or money's worth is attributable to the lessee's rights under the lease.

681DI Disposal of interest to associate

- (1) This section applies for the purposes of this Chapter if a person disposes of an interest in an asset to a person who is the first person's associate (and the interest may be the lessee's interest in a lease of the asset or the lessor's interest or any other interest).
- (2) The person disposing of the interest must be treated as obtaining in respect of it the greatest of these –
- (a) the sum in fact obtained by the person,
 - (b) the value of the interest in the open market,
 - (c) the value of the interest to the person to whom it is in effect transferred.
- (3) The disposal –
- (a) may be direct or indirect, and
 - (b) may be effected by a transaction or series of transactions described in section 681DG(b) or 681DH(3).

Apportionment

681DJ Apportionment of payments made and of sums obtained

- (1) This section applies for the purposes of this Chapter.
- (2) Subsection (3) applies if –
- (a) a payment is made,
 - (b) it is one for which a deduction by way of relevant tax relief is allowed, and
 - (c) it is made by persons carrying on a trade or profession in partnership.
- (3) The payment must be apportioned in a manner which is just and reasonable.
- (4) Subsection (5) applies if –
- (a) a sum is obtained in respect of an interest in an asset,
 - (b) the sum is obtained by persons carrying on a trade or profession in partnership, and
 - (c) the asset is and continues to be used for the purposes of the trade or profession.
- (5) The sum must be apportioned between the partners in the shares in which they are entitled to the profits of the trade or profession at the time the sum is obtained.
- (6) Subsection (7) applies if –
- (a) a sum is obtained in respect of an interest in an asset, and
 - (b) the sum is obtained by persons jointly entitled to the interest.
- (7) The sum must be apportioned according to their respective rights in the interest.
- (8) Subsections (6) and (7) are subject to subsections (4) and (5).

681DK Manner of apportionment

- (1) This section applies if –
 - (a) a payment or sum is to be apportioned under section 681DJ,
 - (b) at the time of the apportionment it appears that it is material to the liability to income tax (for whatever period) of two or more persons, and
 - (c) a question arises as to the manner in which the payment or sum is to be apportioned.
- (2) For the purposes of income tax of all the persons the question must be decided by [the tribunal].
- (3) The tribunal must decide the question in the manner it would be decided if it were an appeal, except that all the persons may –
 - (a) appear and be heard, or
 - (b) make written representations.

Interpretation

681DL Associates

- (1) This section applies for the purposes of this Chapter.
- (2) Persons are associates if they are associated with each other.
- (3) These persons are associated with each other –
 - (a) an individual and the individual's spouse or civil partner or relative,
 - (b) an individual and a spouse or civil partner of a relative of the individual,
 - (c) an individual and a relative of the individual's spouse or civil partner,
 - (d) an individual and a spouse or civil partner of a relative of the individual's spouse or civil partner.
- (4) These persons are associated with each other –
 - (a) a person as trustee of a settlement and an individual who (in relation to the settlement) is a settlor,
 - (b) a person as trustee of a settlement and a person associated with an individual who (in relation to the settlement) is a settlor.
- (5) These persons are associated with each other –
 - (a) a person and a body of persons of which the person has control,
 - (b) a person and a body of persons of which persons associated with the person have control,
 - (c) a person and a body of persons of which the person and persons associated with the person have control,
 - (d) two or more bodies of persons associated with the same person under paragraphs (a) to (c).
- (6) In relation to a disposal by joint owners, the joint owners and any person associated with any of them are associated with each other.

- (7) For the purposes of this section –
- (a) a relative is a brother, sister, ancestor or lineal descendant,
 - (b) a body of persons includes a partnership,
 - (c) “settlement” and “settlor” have the meanings given by section 620 of ITTOIA 2005, and
 - (d) “control” has the meaning given by section 995.

681DM Capital sum

For the purposes of this Chapter a capital sum is any sum of money, or any money’s worth, except so far as it or any part of it –

- (a) is to be treated for income tax purposes as a receipt to be taken into account in calculating the profits or losses of a trade, profession or vocation, or
- (b) is (apart from this Chapter) chargeable to income tax under or by virtue of any provision to which section 1016 applies.

681DN Lease

- (1) This section applies for the purposes of this Chapter.
- (2) A lease is (in relation to an asset) an agreement or arrangement under which payments are made for the use of or otherwise in respect of the asset.
- (3) In particular it includes an agreement or arrangement under which the payments (or any of them) represent instalments of a purchase price or payments towards it.

681DO Relevant asset

For the purposes of this Chapter a relevant asset is any description of property or rights other than land or an interest in land.

681DP Relevant tax relief

For the purposes of this Chapter each of the following is a deduction by way of relevant tax relief –

- (a) a deduction in calculating profits or losses of a trade for corporation tax purposes,
- (b) a deduction in calculating profits or gains chargeable to corporation tax under or by virtue of any provision to which [section 834A of ICTA] applies (miscellaneous charges), or in calculating any loss for which relief is given under [section [j4551rm] of [Bill 6]] (losses from miscellaneous transactions),
- (c) a deduction under section 76 of ICTA (insurance companies),
- (d) a deduction under section [1143] [j2000] of [the Corporation Tax Act 2009] (expenses of management of a company’s investment business),
- (e) a deduction in calculating profits or losses of a trade, profession or vocation for income tax purposes,
- (f) a deduction in calculating profits or other income or gains chargeable to income tax under or by virtue of any provision to which section 1016 applies, or in calculating any loss for which relief is allowed under section 152 (losses from miscellaneous transactions), and

- (g) a deduction from earnings allowed under section 336 of ITEPA 2003 (expenses) or allowed in calculating losses in an employment for income tax purposes.

681DQ Meaning of “hire-purchase agreement”

- (1) This section applies for the purposes of the provisions of the Income Tax Acts which apply this section.
- (2) A hire-purchase agreement is an agreement in whose case each of conditions A to C is met.
- (3) Condition A is that under the agreement goods are bailed (or in Scotland hired) in return for periodical payments by the person to whom they are bailed (or hired).
- (4) Condition B is that under the agreement the property in the goods will pass to the person to whom they are bailed (or hired) if the terms of the agreement are complied with and one or more of the following events occurs—
 - (a) the exercise of an option to purchase by that person,
 - (b) the doing of another specified act by any party to the agreement,
 - (c) the happening of another specified event.
- (5) Condition C is that the agreement is not a conditional sale agreement.
- (6) In subsection (5) “conditional sale agreement” means an agreement for the sale of goods under which—
 - (a) the purchase price or part of it is payable by instalments, and
 - (b) the property in the goods is to remain in the seller (even though they are to be in the possession of the buyer) until conditions specified in the agreement are met (whether as to the payment of instalments or otherwise).
- (7) [In section 49 of ITTOIA 2005 (car or motor cycle hire: supplementary), in subsection (2)(a) omit “(see subsection (3))” and for subsections (3) to (5) substitute—
 - “(3) For this purpose “hire-purchase agreement” has the meaning given by section [681DQ] of ITA 2007.”]

Origin: ICTA s.781(1), (1A), (2), (4), (6), (7), (8), (8A), (9), s.782(1), s.783(1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (11), s.784(1), (2), (3), (4), (5), (6), s.785; Annex 1, change [jc704]; Annex 1, change [jc734]; drafting.