

Bill 6

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B I L L

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Restate, with minor changes, certain enactments relating to corporation tax; and for connected purposes.

BE IT ENACTED by the Queen’s most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

PART 1

LEASING PLANT OR MACHINERY

CHAPTER 1

INTRODUCTION

CHAPTER 2

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LONG FUNDING LEASES OF PLANT OR MACHINERY

Introduction

1 Introduction [j6502A]

- (1) This Chapter makes provision about the calculation for corporation tax purposes of the profits of companies which are— 10
- (a) lessors of plant or machinery under long funding finance leases (see sections 2 to 4),
 - (b) lessors of plant or machinery under long funding operating leases (see sections 5 to 11),
 - (c) lessees of plant or machinery under long funding finance leases (see sections 18 and 19), or 15
 - (d) lessees of plant or machinery under long funding operating leases (see sections 20 and 21).

[Origin: Drafting.](#)

- (2) Sections 12 to 17 make provision about cases where sections 2 to 11 are not to apply.

Origin: Drafting.

- (3) For the meaning of expressions used in this section and in this Chapter generally, see section 22 and, in particular – 5
- (a) subsection (1) of that section (which provides for the application of Chapter 6A of Part 2 of CAA 2001 (interpretation of provisions about long funding leases) to this Chapter), and
- (b) subsections (2) and (3) of that section (which specify the provisions of that Chapter in which some expressions used in this Chapter are defined). 10

Origin: Drafting.

Lessors under long funding finance leases

2 Lessor under long funding finance lease: rental earnings [j6502B]

- (1) This section applies for any period of account of a company in which it is the lessor of any plant or machinery under a long funding finance lease. 15

Origin: ICTA s.502B(1).

- (2) The amount to be brought into account for corporation tax purposes as the lessor's income from the lease for the period is the amount of the rental earnings in respect of the lease for the period. 20

Origin: ICTA s.502B(2).

- (3) The amount of those rental earnings is the amount which, in accordance with generally accepted accounting practice, falls (or would fall) to be treated as the gross return on investment for that period in respect of the lease.

Origin: ICTA s.502B(3). 25

- (4) If the lease is one which, in accordance with such practice, falls (or would fall) to be treated as a loan for the period of account, so much of the rentals under the lease as falls (or would fall) to be treated as interest is treated for the purposes of this section as rental earnings.

Origin: ICTA s.502B(4). 30

3 Lessor under long funding finance lease: exceptional items [j6502C]

- (1) This section applies if –
- (a) a company is or has been the lessor under a long funding finance lease, and
- (b) an exceptional profit or loss arises to the company in connection with the lease. 35

Origin: ICTA s.502C(1), (2).

- (2) A profit or loss is exceptional for the purposes of subsection (1) if –

- (a) in accordance with generally accepted accounting practice it falls (or would fall) to be recognised for accounting purposes in a period of account, but
- (b) apart from this section, it would not be brought into account in calculating the profits of the company for corporation tax purposes. 5

Origin: ICTA s.502C(2).

- (3) Such a profit is treated for corporation tax purposes as income of the company attributable to the lease.

Origin: ICTA s.502C(3).

- (4) Such a loss is treated for corporation tax purposes as a revenue expense incurred by the company in connection with the lease. 10

Origin: ICTA s.502C(3).

- (5) It does not matter for the purposes of this section whether the profit or loss is of an income or capital nature.

Origin: ICTA s.502C(2). 15

- (6) The reference in subsection (2) to an amount falling to be recognised for accounting purposes in a period of account is a reference to an amount falling to be recognised for accounting purposes in –

- (a) the company’s profit and loss account or income statement,
- (b) the company’s statement of recognised gains and losses or statement of changes in equity, or 20
- (c) any other statement of items brought into account in calculating the company’s profits or losses for that period.

Origin: ICTA s.502C(4).

4 Lessor under long funding finance lease making termination payment [j6502D] 25

- (1) This section applies if –
 - (a) a company is or has been the lessor under a long funding finance lease,
 - (b) the lease terminates, and
 - (c) a sum calculated by reference to the termination value is paid to the lessee. 30

Origin: ICTA s.502D(1), (2).

- (2) No deduction in respect of the sum is allowed in calculating the profits of the company for corporation tax purposes.

Origin: ICTA s.502D(2). 35

- (3) This section does not prevent a deduction in respect of a sum so far as it is brought into account in determining the company’s rental earnings.

Origin: ICTA s.502D(3).

- (4) For the meaning of “termination value”, see section 22(3)(m).

Origin: Drafting. 40

Lessors under long funding operating leases

5 Lessor under long funding operating lease: periodic deduction [j6502E]

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

Origin: ICTA s.502E(1). 5

- (2) A deduction is allowed in calculating the profits of the company for the period of account for corporation tax purposes.

Origin: ICTA s.502E(2).

- (3) The amount of the deduction is so much of the expected gross reduction in value over the term of the lease as is attributable to the period of account. 10

Origin: ICTA s.502E(3), (7), (9).

- (4) The expected gross reduction in value over the term of the lease is –
- (a) the starting value of the plant or machinery, less
 - (b) the amount which at the commencement of the term of the lease is expected to be its residual value (or, if section 7 applies, would have been expected to be that value had that value been estimated at that time). 15

Origin: ICTA s.502E(6).

- (5) The expected gross reduction in value over the term of the lease that is attributable to the period of account is found by apportioning that reduction on a time basis according to the proportion of the term of the lease that falls in the period of account. 20

Origin: ICTA s.502E(7), (8).

- (6) For the meaning of “starting value”, see –
- (a) section 6 (meaning of “starting value”: general), and 25
 - (b) section 7 (“starting value” where machinery or plant originally unqualifying).

Origin: Drafting.

- (7) For the meaning of “residual value”, see section 22(4).

Origin: Drafting. 30

6 Meaning of “starting value”: general [j6502EE]

- (1) This section is about the meaning of “starting value” in section 5 in relation to a long funding operating lease (“the section 5 lease”).

Origin: Drafting.

- (2) But this section does not apply if the conditions in section 7(2) (“starting value” where machinery or plant originally unqualifying) are met. 35

Origin: Drafting.

- (3) If the only use of the plant or machinery by the lessor has been the leasing of it under the section 5 lease as a qualifying activity, the starting value is the

amount of the expenditure incurred by the lessor on the provision of the plant or machinery (“cost”).

Origin: ICTA s.502E(4), (5).

- (4) If subsection (3) does not apply, the starting value depends on the last previous use of the plant or machinery by the lessor. 5

Origin: ICTA s.502E(4), (5); drafting.

- (5) If that use was the leasing of it under another long funding operating lease as a qualifying activity, the starting value is the market value of the plant or machinery at the commencement of the term of the section 5 lease (“market value”). 10

Origin: ICTA s.502E(4), (5).

- (6) If that use was the leasing of it under a long funding finance lease as a qualifying activity, the starting value is the value at which the plant or machinery is recognised in the books or other finance records of the lessor at the commencement of the term of the section 5 lease. 15

Origin: ICTA s.502E(4), (5).

- (7) If that use was for the purposes of a qualifying activity other than leasing under a long funding lease, the starting value is the lower of cost and market value.

Origin: ICTA s.502E(4).

- (8) For the meaning of “qualifying activity”, see section 22(4). 20

Origin: Drafting.

7 “Starting value” where machinery or plant originally unqualifying [j6502EEe]

- (1) This section applies if the conditions in subsection (2) are met in relation to a long funding operating lease to which section 5 applies.

Origin: Drafting. 25

- (2) The conditions are that—
- (a) the lessor owns the plant or machinery as a result of having incurred expenditure on its provision for purposes other than those of a qualifying activity,
 - (b) the plant or machinery is brought into use by the lessor for the purposes of a qualifying activity on or after 1 April 2006, and 30
 - (c) that qualifying activity is the leasing of the plant or machinery under the lease.

Origin: ICTA s.502E(4).

- (3) For the purposes of section 5 the starting value is the lower of— 35
- (a) first use market value, and
 - (b) first use amortised market value.

Origin: ICTA s.502E(4).

- (4) “First use market value” means the market value of the plant or machinery at the time when it is first brought into use for the purposes of the qualifying activity. 40

Origin: ICTA s.502E(5).

- (5) “First use amortised value” means the value that the plant or machinery would have at the time when it is first brought into use for the purposes of the qualifying activity on the assumptions in subsection (6).

Origin: ICTA s.502E(5).

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- (6) The assumptions are that –
- (a) the cost of acquiring the plant or machinery had been written off on a straight line basis over its remaining useful economic life, and
 - (b) any further capital expenditure incurred had been written off on a straight line basis over so much of its remaining economic life as remains at the time when the expenditure is incurred.

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Origin: ICTA s.502E(5).

- (7) For the meaning of “qualifying activity”, “remaining useful economic life” and writing off on a straight line basis, see section 22(4), (3)(i) and (5) respectively.

Origin: Drafting.

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8 Long funding operating lease: lessor’s additional expenditure [j6502F]

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

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Origin: ICTA s.502F(1).

- (2) An additional deduction is allowed in calculating the profits of the company for each period of account –
- (a) which ends after the incurring of the additional expenditure, and
 - (b) in which the company is the lessor of the plant or machinery under the lease.

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Origin: ICTA s.502F(3), (11).

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- (3) The amount of the deduction is so much of the expected reduction in value of the additional expenditure as is attributable to the period of account.

Origin: ICTA s.502F(4), (8), (10).

- (4) The expected reduction in value of the additional expenditure is the amount of the additional expenditure, less the remaining residual value of the plant or machinery resulting from that expenditure.

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Origin: ICTA s.502F(7).

- (5) For how to determine that remaining residual value, see –
- (a) section 9 (determination of remaining residual value resulting from lessor’s first additional expenditure), and
 - (b) section 10 (determination of remaining residual value resulting from lessor’s further additional expenditure).

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Origin: Drafting.

- (6) The amount of the expected reduction in value of the additional expenditure attributable to the period of account is found by apportioning that reduction on a time basis according to the proportion of the term of the lease that falls in the period of account. 5

Origin: ICTA s.502F(8), (9).

- (7) In this section “the commencement time” means –
- (a) except where section 7 applies, the commencement of the term of the lease, and
 - (b) if that section applies, the time when the plant or machinery is first brought into use by the lessor for the purposes of the qualifying activity. 10

Origin: ICTA s.502F(1),(2).

9 Determination of remaining residual value resulting from lessor’s first additional expenditure [j6502FF] 15

- (1) This section sets out how the remaining residual value of the plant or machinery resulting from the additional expenditure (“RRV”) is determined for the purposes of section 8(4) if section 8 has not applied in relation to any previous additional expenditure incurred by the company in relation to the leased plant or machinery. 20

Origin: ICTA s.502F(5), (6), drafting.

- (2) RRV depends on whether –
- (a) the amount (“ARV”) which is expected to be the residual value of the plant or machinery at the time when the additional expenditure is incurred, exceeds 25
 - (b) the amount (“CRV”) which at the commencement of the term of the lease is expected to be its residual value (or, if section 7 applies, would have been expected to be that value had that value been estimated at that time).

Origin: ICTA s.502F(5), (6). 30

- (3) If ARV exceeds CRV, RRV is the part of the excess that is a result of the additional expenditure.

Origin: ICTA s.502F(6).

- (4) Otherwise, RRV is nil.

Origin: ICTA s.502F(6). 35

- (5) For the meaning of “residual value”, see section 22(4).

Origin: Drafting.

10 Determination of remaining residual value resulting from lessor’s further additional expenditure [j6502FFF] 40

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

for the purposes of section 8(4) if section 8 has applied in relation to previous additional expenditure incurred by the company in relation to the leased plant or machinery.

Origin: ICTA s.502F(5), (6), drafting.

- (2) RRV depends on whether – 5
- (a) the amount which is expected to be the residual value of the plant or machinery at the time when the further additional expenditure is incurred (“FARV”), exceeds
 - (b) the sum of the amounts in subsection (3).

Origin: ICTA s.502F(5), (6). 10

- (3) Those amounts are –
- (a) the amount which at the commencement of the term of the lease is expected to be the residual value of the plant or machinery (or, if section 7 applies, would have been expected to be that value had that value been estimated at that time), and 15
 - (b) any amounts that were subtracted under section 8(4) as the remaining residual value of the plant or machinery resulting from the previous additional expenditure.

Origin: ICTA s.502F(5), (6).

- (4) If FARV exceeds the sum of the amounts in subsection (3), RRV is the portion of the excess that is a result of the further additional expenditure. 20

Origin: ICTA s.502F(6).

- (5) Otherwise, RRV is nil.

Origin: ICTA s.502F(6).

- (6) For the meaning of “residual value”, see section 22(4). 25

Origin: Drafting.

11 Lessor under long funding operating lease: termination of lease [j6502G]

- (1) This section applies in calculating the profits of a company for corporation tax purposes if it is the lessor immediately before the termination of a long funding operating lease. 30

Origin: ICTA s.502G(1).

- (2) If the termination amount (see section 22(3)(l)) exceeds the sum of the amounts in subsection (3), an amount equal to the excess is treated as income of the company attributable to the lease arising in the period of account in which it terminates. 35

Origin: ICTA s.502G(2), (5), (6), (8).

- (3) The amounts referred to in subsection (2) are –
- (a) the total amounts paid to the lessee that are calculated by reference to the termination value (see section 22(3)(m)),
 - (b) the excess relevant value for section 5 (see subsection (6)), and 40
 - (c) the excess expenditure for section 8 (see subsection (7)).

Origin: ICTA s.502G(2), (7), (8).

- (4) If the sum of the amounts in subsection (3) exceeds the termination amount, the excess is treated as a revenue expense incurred by the company in connection with the lease in the period of account in which it terminates.

Origin: ICTA s.502G(2), (5), (7), (8).

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- (5) No deduction is allowed in respect of any sums within subsection (3)(a).

Origin: ICTA s.502G(9).

- (6) “The excess relevant value for section 5” is the amount (if any) by which –
- (a) the starting value of the plant or machinery for the purposes of section 5(4) (lessor under long funding operating lease: periodic deduction), exceeds
 - (b) the total of the deductions allowable under section 5 for periods of account for the whole or part of which the company was the lessor.

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Origin: ICTA s.502G(3).

- (7) “The excess expenditure for section 8” is the amount (if any) by which –
- (a) the total of any amounts of capital expenditure incurred by the company which constitute additional expenditure in the case of the lease for the purposes of section 8 (long funding operating lease: lessor’s additional expenditure), exceeds
 - (b) the total of any deductions allowable under section 8 for periods of account for the whole or part of which the company was the lessor.

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Origin: ICTA s.502G(4).

Cases where sections 2 to 11 do not apply

12 Plant or machinery held as trading stock [j6502GA]

- (1) Sections 2 to 11 do not apply in the case of a company which is or has been the lessor of any plant or machinery under a long funding lease if the condition in subsection (2) is met.

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Origin: ICTA s.502GA(1).

- (2) The condition is that any part of the expenditure incurred by the company on the acquisition of the plant or machinery for leasing under the lease –
- (a) is allowable as a deduction (apart from sections 2 to 11) in calculating its profits or losses for corporation tax purposes, and
 - (b) is so allowable as a result of the plant or machinery forming part of its trading stock.

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Origin: ICTA s.502GA(2).

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- (3) For the purposes of this section the cases in which expenditure incurred by a company on the acquisition of any plant or machinery for leasing under a lease is allowable as such a deduction include any case where –
- (a) the company becomes entitled to the deduction at any time after the expenditure is incurred, and
 - (b) the deduction arises as a result of the plant or machinery forming part of its trading stock at that time.

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Origin: ICTA s.502GA(3).

13 Adjustments where sections 2 to 11 subsequently disapplied by section 12 [j6502GAA]

- (1) This section applies if –
- (a) at any time any of sections 2 to 11 has applied for determining the amounts to be taken into account in calculating the profits or losses of a company for corporation tax purposes, and
 - (b) subsequently the condition in section 12(2) is met.

Origin: ICTA s.502GA(4).

- (2) If this section applies –
- (a) the amounts mentioned in subsection (1)(a), and
 - (b) any other amounts which, as a result of section 12, are to be taken into account in calculating the profits or losses of the company for corporation tax purposes,
- are subject to such adjustments as are just and reasonable.

Origin: ICTA s.502GA(4).

- (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to this section.

Origin: ICTA s.502GA(5).

14 Lessor also lessee under non-long funding lease [j6502GB]

- (1) This section applies if –
- (a) a company is the lessee of any plant or machinery under a lease (“lease A”),
 - (b) lease A is not a long funding lease,
 - (c) the company enters into a lease (“lease B”) of any of that plant or machinery (as lessor), and
 - (d) lease B is a long funding lease.

Origin: ICTA s.502GB(1).

- (2) Sections 2 to 11 do not apply in relation to lease B.

Origin: ICTA s.502GB(2).

- (3) This section must be treated as never having applied in relation to lease B if lease A –
- (a) becomes a long funding lease as a result of section 70H of CAA 2001 (tax return by lessee treating lease as long funding lease), and
 - (b) has not ceased to be such a lease.

Origin: ICTA s.502GB(3).

15 Other avoidance [j6502GC]

- (1) Sections 2 to 11 do not apply in the case of a company which is or has been the lessor of any plant or machinery under a long funding lease if conditions A to C are met.

Origin: ICTA s.502GC(1).

- (2) Condition A is that the long funding lease forms part of any arrangement entered into by the company which includes one or more other transactions.

Origin: ICTA s.502GC(2).

- (3) Condition B is that the main purpose, or one of the main purposes, of the arrangement is to secure that, over the lease period, there would be a substantial difference between the GAAP total and the tax total. 5

Origin: ICTA s.502GC(3).

- (4) “The GAAP total” means the sum of the amounts under the arrangement which are, in accordance with generally accepted accounting practice – 10
- (a) recognised in determining the company’s profit or loss for any period, or
 - (b) taken into account in calculating the amounts which are so recognised.

Origin: ICTA s.502GC(3).

- (5) “The tax total” means the sum of the amounts under the arrangement which would (apart from this section) be taken into account in calculating the profits or losses of the company for corporation tax purposes. 15

Origin: ICTA s.502GC(3).

- (6) Condition C is that the difference referred to in subsection (3) would be attributable (wholly or partly) to the application of any of sections 2 to 11 in relation to the company by reference to the plant or machinery under the lease. 20

Origin: ICTA s.502GC(5).

- (7) This section is supplemented by sections 16 and 17.

Origin: Drafting.

16 Provision supplementing section 15 [j6502GCC] 25

- (1) It does not matter whether the arrangement referred to in condition A in section 15(2) is entered into before, after or at the inception of the long funding lease.

Origin: ICTA s.502GC(2).

- (2) It does not matter whether the parties to any transaction which forms part of that arrangement differ from the parties to any of the other transactions. 30

Origin: ICTA s.502GC(7).

- (3) The cases in which two or more transactions are to be taken as forming part of an arrangement for the purposes of section 15 include any case in which it would be reasonable to assume that one or more of them – 35
- (a) would not have been entered into independently of the other or others, or
 - (b) if entered into independently of the other or others, would not have taken the same form or been on the same terms.

Origin: ICTA s.502GC(8). 40

- (4) For the purposes of condition B in section 15(3) “the lease period” means the period which—
- (a) begins with the inception of the lease, and
 - (b) ends with the end of the term of the lease.
- [Origin: ICTA s.502GC\(4\).](#) 5
- (5) The reference in section 15(4) to an amount being recognised in determining a company’s profit or loss for a period is to an amount being recognised for accounting purposes—
- (a) in the company’s profit and loss account or income statement,
 - (b) in the company’s statement of recognised gains and losses or statement of changes in equity, or 10
 - (c) in any other statement of items brought into account in calculating the company’s profits or losses for that period.
- [Origin: ICTA s.502GC\(6\).](#)
- 17 Adjustments where sections 2 to 11 subsequently disappplied by section 15 [j6502GCCC]** 15
- (1) This section applies if—
- (a) at any time any of sections 2 to 11 has applied for determining the amounts to be taken into account in calculating the profits or losses of the company for corporation tax purposes, and 20
 - (b) subsequently conditions A to C in section 15 are met.
- [Origin: ICTA s.502GC\(9\).](#)
- (2) If this section applies—
- (a) the amounts mentioned in subsection (1)(a), and
 - (b) any other amounts which, as a result of section 15, are to be taken into account in calculating the profits or losses of the company for corporation tax purposes, 25
- are subject to such adjustments as are just and reasonable.
- [Origin: ICTA s.502GC\(9\).](#)
- (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to this section. 30
- [Origin: ICTA s.502GC\(10\).](#)
- Lessees under long funding finance leases*
- 18 Lessee under long funding finance lease: limit on deductions [j6502I]**
- (1) This section applies if a company is the lessee of any plant or machinery under a long funding finance lease for the whole or part of any period of account. 35
- [Origin: ICTA s.502I\(1\).](#)
- (2) In calculating the company’s profits for the period of account for corporation tax purposes, the amount deducted in respect of amounts payable under the lease must not exceed the finance charges. 40

Origin: ICTA s.502I(1), (2).

- (3) In subsection (2) “the finance charges” means the amounts which, in accordance with generally accepted accounting practice, fall (or would fall) to be shown in the company’s accounts as finance charges in respect of the lease.

Origin: ICTA s.502I(2).

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- (4) If the lease is one which, in accordance with such practice, falls (or would fall), to be treated as a loan, subsections (2) and (3) apply as if the lease were one which, in accordance with such practice, fell to be treated as a finance lease.

Origin: ICTA s.502I(2).

19 Lessee under long funding finance lease: termination [j6502J]

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- (1) This section applies if –
(a) a company is or has been the lessee under a long funding finance lease, and
(b) in connection with the termination of the lease, a payment calculated by reference to the termination value falls to be made to the company.

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Origin: ICTA s.502J(1).

- (2) The payment is not to be brought into account in determining the profits of the company for any period of account for corporation tax purposes.

Origin: ICTA s.502J(2).

- (3) Subsection (2) does not affect the amount of any disposal value that falls to be brought into account by the company under CAA 2001.

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Origin: ICTA s.502J(3).

- (4) For the meaning of “termination value”, see section 22(3)(m).

Origin: Drafting.

Lessees under long funding operating leases

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20 Lessee under long funding operating lease [j6502K]

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

Origin: ICTA s.502K(1).

- (2) The deductions allowed in calculating the profits of the company for the period of account for corporation tax purposes are reduced.

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Origin: ICTA s.502K(2).

- (3) The amount of the reduction is so much of the expected gross reduction in value over the term of the lease as is attributable to the period of account.

Origin: ICTA s.502K(3).

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- (4) The expected gross reduction in value over the term of the lease is the starting value of the plant or machinery, less its expected end value.

Origin: ICTA s.502K(6).

- (5) For the meaning of “starting value”, see section 21.

Origin: Drafting.

- (6) The expected end value of plant or machinery is the amount which –
- (a) at the commencement of the term of the lease is expected to be its market value at the end of the term, or 5
 - (b) if section 21(3) applies, would have been expected to be that value had that value been estimated at the commencement of the term.

Origin: ICTA s.502K(6).

- (7) The expected gross reduction in value over the term of the lease that is attributable to the period of account is found by apportioning that reduction on a time basis according to the proportion of the term of the lease that falls in the period of account. 10

Origin: ICTA s.502K(7), (8), (9).

21 Meaning of “starting value” in section 20 [j6502KK] 15

- (1) This section is about the meaning of “starting value” in section 20 in relation to a long funding operating lease (“the section 20 lease”).

Origin: Drafting.

- (2) Except where subsection (3) applies, the starting value is the market value of the plant or machinery at the commencement of the term of the section 20 lease. 20

Origin: ICTA s.502K(4).

- (3) This subsection applies if the lessee –
- (a) has the use of the plant or machinery as a result of having incurred expenditure on its provision for purposes other than those of a qualifying activity, but 25
 - (b) brings the plant or machinery into use for the purposes of a qualifying activity on or after 1 April 2006.

Origin: ICTA s.502K(4).

- (4) If subsection (3) applies, the starting value is the lower of –
- (a) first use market value, and 30
 - (b) first use amortised market value.

Origin: ICTA s.502K(5).

- (5) “First use market value” means the market value of the plant or machinery at the time when it is first brought into use for the purposes of the qualifying activity. 35

Origin: ICTA s.502K(5).

- (6) “First use amortised market value” means the value that the plant or machinery would have at the time when it is first brought into use for the purposes of the qualifying activity on the assumption in subsection (7).

Origin: ICTA s.502K(5). 40

- (7) That assumption is that the market value of the plant or machinery at the commencement of the term of the section 20 lease had been written off on a straight line basis over its remaining useful economic life.

Origin: ICTA s.502K(5).

- (8) For the meaning of “qualifying activity”, “remaining useful economic life” and writing off on a straight line basis, see section 22(4), (3)(i) and (5) respectively. 5

Origin: Drafting.

Interpretation

22 Interpretation of Chapter [j6502L]

- (1) Chapter 6A of Part 2 of CAA 2001 (interpretation of provisions about long funding leases) applies in relation to this Chapter as it applies in relation to that Part. 10

Origin: ICTA s.502L(4).

- (2) Accordingly –
- “the finance lease test” means the finance lease test in section 70N of CAA 2001, 15
 - “long funding lease” has the meaning given by section 70G of that Act,
 - “long funding finance lease” means a long funding lease that meets the finance lease test as a result of section 70N(1)(a) of that Act, and
 - “long funding operating lease” means a long funding lease which is not a long funding finance lease. 20

Origin: ICTA s.502L(3); drafting.

- (3) As to the meaning of the following other expressions used in this Chapter, see –
- (a) for “commencement”, in relation to the term of a lease, section 70YI(1) of CAA 2001, 25
 - (b) for “inception”, section 70YI(1) of that Act,
 - (c) for “lease”, section 70YI(1) of that Act,
 - (d) for “lessee”, section 70YI(1) of that Act,
 - (e) for “lessor”, section 70YI(1) of that Act, 30
 - (f) for “market value”, in relation to plant or machinery, section 70YI(2) of that Act,
 - (g) for “plant or machinery”, in relation to a lease, section 70YI(3) of that Act,
 - (h) for “plant or machinery lease”, section 70YI(1) of that Act, 35
 - (i) for “remaining useful economic life”, section 70YI(1) of that Act,
 - (j) for “the term”, in relation to a lease, section 70YI(1) of that Act,
 - (k) for “termination”, section 70YI(1) of that Act,
 - (l) for “termination amount”, section 70YG of that Act, and
 - (m) for “termination value”, section 70YH of that Act. 40

Origin: Drafting.

- (4) In this Chapter –

“qualifying activity” has the same meaning as in Part 2 of CAA 2001, and “residual value”, in relation to any plant or machinery leased under a long funding operating lease, means –

- (a) the estimated market value of the plant or machinery on a disposal at the end of the term of the lease, 5
- less
- (b) the estimated costs of that disposal.

[Origin: ICTA s.502L\(1\).](#)

- (5) Any reference in this Chapter to a sum being written off on a straight line basis over a period of time (the “writing-off period”) is a reference to – 10
 - (a) the sum being apportioned between each of the periods of account in which any part of the writing-off period falls,
 - (b) that apportionment being made on a time basis, according to the proportion of the writing-off period that falls in each of the periods of account, and 15
 - (c) the sum being written off accordingly.

[Origin: ICTA s.502L\(2\).](#)