Income and Corporation Taxes Act 1988

1988 CHAPTER 1

PART XII

SPECIAL CLASSES OF COMPANIES AND BUSINESSES

CHAPTER 5A

SPECIAL RULES FOR LONG FUNDING LEASES OF PLANT OR MACHINERY: CORPORATION TAX

[F1 Lessors under long funding operating leases]

VALID FROM 19/07/2006

502F Long funding operating lease: lessor's additional expenditure

(1) This section applies if in any period of account—

(a) a company is the lessor of any plant or machinery under a long funding operating lease,

(b) the company incurs capital expenditure in relation to the plant or machinery, and

(c) that capital expenditure (the "additional expenditure") is not reflected in the market value of the plant or machinery at the commencement of the term of the lease.

(2) In a case falling within section 502E(4)(e) above, subsection (1)(c) above has effect as if the reference to the commencement of the term of the lease were a reference to the time when the plant or machinery is first brought into use by the lessor for the purposes of the qualifying activity.

(3) Where this section applies, an additional deduction is allowed in computing the profits of the company for each post-expenditure period of account in which the company is the lessor of the plant or machinery under the lease.

(4) The amount of the deduction for any such period of account is to be determined as follows.

(5) Find ARV, CRV, PRV, and TRV where—

“ARV” is the amount which, at the time when the additional expenditure is incurred, is expected to be the residual value of the plant or machinery;

“CRV” is the amount which, at the commencement of the term of the lease, is expected to be the residual value of the plant or machinery;

“PRV” is the sum of any amounts that fell to be taken into account as RRV (see subsection (6)) in the application of this section in relation to any previous additional expenditure incurred by the company in relation to the leased plant or machinery;

“TRV” is the total of CRV and PRV.

(6) Find RRV, where—

(a) if ARV exceeds TRV, RRV is the portion of the excess that is a result of the additional expenditure, but

(b) if ARV does not exceed TRV, RRV is nil.

(7) From—

(a) the amount of the additional expenditure,

subtract

(b) RRV,

to find the expected partial reduction in value over the remainder of the term of the lease.

(8) Apportion the amount of that expected partial reduction in value to each post-expenditure period of account in which any part of the term of the lease falls.

(9) The apportionment must be on a time basis according to the proportion of the term of the lease that falls in each post-expenditure period of account.

(10) The amount of the additional deduction for any period of account is the amount so apportioned to that period.

(11) In this section “post-expenditure period of account” means any period of account ending after the incurring of the additional expenditure.

Status:
Point in time view as at 11/05/2001. This version of this provision is not valid for this point in time.

Changes to legislation:
Income and Corporation Taxes Act 1988, Section 502F is up to date with all changes known to be in force on or before 31 May 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations.