

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 10: Property Loss Relief Against General Income: Tax-Generated Agricultural Expenses

Summary

1. **Section 10** provides for changes to the rules for the losses that can be claimed by a person from a property business with a relevant agricultural connection. The changes are designed to prevent tax-generated agricultural expenses being available for relief against the person's other taxable income. These changes were announced on 13 March 2012 and will apply on and after that date.

Details of the Section

2. Subsection (2) adds section 127B of the Income Tax Act 2007 (ITA) to sections restricting relief under Chapter 4 of ITA.
3. Subsection (4) inserts new section 127B of ITA (no relief for tax-generated agricultural expenses).
4. New section 127B(1) provides that this section applies if a person makes a loss in a tax year from carrying on a property business with a relevant agricultural connection, either in a sole capacity or as a partner, and that loss arises directly or indirectly in consequence of, or otherwise in connection with relevant tax avoidance arrangements.
5. New section 127B(2) provides that there is no property loss relief for the loss falling within section 127B(1).
6. New section 127B(4) defines "relevant tax avoidance arrangements" for the purposes of section 127B.
7. New section 127B(5) defines "arrangements" for the purposes of section 127B(4).
8. New section 127B(6) defines "the applicable amount of the loss" and "allowable agricultural expenses" for the purposes of section 127B.
9. Subsections (5) and (6) provide commencement rules.
10. Subsection (7) defines "an unconditional obligation" for the purposes of subsection (6).

Background Note

11. A person who makes a loss from a property business with a relevant agricultural connection may claim relief against their other income. This is known as "property loss relief".
12. The Government has become aware of avoidance activity that relies on creating contrived costs in order to claim property loss relief. This puts at risk substantial amounts of tax.

*These notes refer to the Finance Act 2012 (c.14)
which received Royal Assent on 17 July 2012*

13. The Exchequer Secretary to the Treasury announced in a written statement on 13 March 2012 that legislation would be introduced with effect from that date to prevent property loss relief being available where the relief arises from arrangements and a main purpose of the arrangements is to obtain a tax reduction resulting from property loss relief from a property business with a relevant agricultural connection.