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

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 24: Companies Carrying on Businesses of Leasing Plant Or Machinery

Background Note

25. The sales of lessors provisions were introduced in FA 2006 to counter a risk that tax would not be paid on the profits of a leasing business following a sale of the company. Typically this risk arose as a consequence of a sale to a loss making group. There is a similar risk that tax would not be paid if a lessor company becomes subject to the tonnage tax rules. This is because on becoming subject to the tonnage tax rules the lessor company's profits cease to be calculated by reference to the normal corporation tax rules.

26. A company can become subject to the tonnage tax rules by becoming a member of a tonnage tax group. Where this is achieved without triggering the effect of the sale of lessors provisions tax would be lost.

27. The changes made by this section will ensure that the effect of the sale of lessors provisions is triggered when a company joins a tonnage tax group so that tax can be collected on the deferred profits of the company.

28. The sale of lessors provisions are designed to collect tax on the deferred profits of the company through an income amount added to the profits in the accounting period when the company changes hands. A matching expense is delivered in the following accounting period and rules prevent this expense from being carried back against the earlier profits and thereby cancelling the effect of the income amount.

29. The changes made by this section refocus these restrictions so that any loss from an accounting period after a change of ownership cannot be carried back against the profits of the company that are derived from the income amount. This restriction prevents groups from arranging their affairs so that losses are available in the lessor company after the change of ownership which can be used to cancel the effect of the income amount.