

Leasing contracts: effect on claims for losses of company reconstructions. CTA76 s121 425.—(1) Subject to this section, where—

(a) under a contract entered into after the 27th day of November, 1975, a company (in this section referred to as “the first company”) incurs capital expenditure on the provision of machinery or plant which the first company lets to another person by another contract (in this section referred to as a “leasing contract”),

(b) apart from this subsection the first company would be entitled to claim relief under subsection (1) or (2) of section 396 in respect of losses incurred on the leasing contract, and

(c) in the accounting period for which an allowance under section 283 or 285 in respect of the expenditure referred to in paragraph (a) is made to the first company, arrangements are in existence by virtue of which, at some time during or after the expiry of that accounting period, a successor company will be able to carry on any part of the first company's trade which consists of or includes the performance of all or any of the obligations which apart from the arrangements would be the first company's obligations under the leasing contract,

then, in the accounting period specified in paragraph (c) and in any subsequent accounting period, the first company shall not be entitled to claim relief as mentioned in paragraph (b) except in computing its profits (if any) arising under the leasing contract.

(2) For the purposes of this section, a company shall be a successor of the first company if the circumstances are such that—

(a) section 400 applies in relation to the first company and the other company as the predecessor and the successor respectively within the meaning of that section, or

(b) the 2 companies are connected with each other.

(3) For the purposes of this section, losses incurred on a leasing contract and profits arising under such a contract shall be computed as if the performance of the leasing contract were a trade begun to be carried on by the first company, separately from any other trade which it may carry on, at the commencement of the letting under the leasing contract.

(4) In determining whether the first company would be entitled to claim relief as mentioned in subsection (1)(b), any losses incurred on the leasing contract shall be treated as incurred in a trade carried on by that company separately from any other trade which it may carry on.