

By PwC Deutschland | 14. Dezember 2011

Vehicle lessor to provide for planned loss on sale

The Supreme Tax Court has held that a truck lessor may accumulate a provision to cover an agreed loss on sale after the lease period in proportion to the rental income.

A motor vehicle leasing company leased trucks for a fixed term at the end of which it repossessed the vehicles and sold them on the open market. It undertook to surrender the proceeds to the lessee in excess of the residual value specified in the leasing contract. Past experience showed that the sale proceeds realised were almost invariably higher than the contract residual value. The residual values were set below the tax written down values on expiry of the lease. A book loss on sale was thus pre-programmed, unless the lease came to an unscheduled end, e.g. as a result of an accident or other insurable event.

The Supreme Tax Court has now held that the lessor must see the contractual arrangements as a whole. It must therefore reckon with total proceeds of the agreed rentals plus the contractual residual value. Additional sales proceeds were not part of the arrangement and fell to the lessee in any event. Its running costs were the regular tax table depreciation and its closing costs were the tax written-down values on the date of closure less the contractual residual values of the assets. These closing costs were in effect a refund of leasing fees. Because they had been agreed to in advance, they should be taken into account currently, i.e. matched with leasing income. The company was therefore required to provide for the loss as an effective refund of leasing fees. The obligation was cash rather than a (non-deductible) provision for future losses. It was to be discounted over the remaining lease term (period of receipt of the payments) at 5% p.a., the rate for long term liabilities.

Supreme Tax Court judgment I R 50/10 of September 29, 2011 published on December 14

Schlagwörter

contract residual value, leased trucks, written down value