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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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Published 11 March 2016

Updated: 10 September 2025 - [See all updates](#)

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CIRD27070 - Finance leasing of intangible assets: lessors: computational rules: general

General effect

Where a finance leased intangible asset is brought within the scope of CTA09/PART8 by the regulations the lessor will bring into account as taxable credits that element of rentals which is credited to its profit and loss account. This is the interest element. Similarly any sums taken to the profit and loss account by way of adjustments at

the end of the lease (such as rental rebates) will count as taxable credits or deductible debits.

The balance of rentals, regarded as repayment of the loan, will not be taxable. On the other hand, the lessor will not be entitled to any deductions for the depreciation of the fixed asset, whether by way of:

- relief under CTA09/PART8 (because no sums representing the depreciation of the leased asset will be charged to the profit and loss account - this follows from its treatment as a loan), or
- capital allowances (because the rules in CTA09/PART8 operate to the exclusion of the general CT code).

The overall effect is to tax the lessor company on its commercial profit from the transaction.

Modifications to CTA09/PART8

To ensure the result described above, the regulations modify the rules in CTA09/PART8 as they apply to a finance lessor as follows:

- no election can be made for fixed rate (4%) relief for the depreciation of the asset ([CIRD12905 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12905\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12905)),
- under the reinvestment relief rules described in [CIRD20000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird20000\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird20000) onwards:
- expenditure on the asset cannot be used to defer taxable credits on the realisation of other intangible assets,
- credits cannot be deferred by the acquisition of a controlling interest in a company by reference to the tax value of finance leased assets held by that company (or a subsidiary) - [CIRD20420 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird20420\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird20420).

[intangibles-research-and-development-manual/cird20420](#))

- there are special rules for cases where an asset begins or ceases to be finance leased ([CIRD27080](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird27080>)).

Background to modifications

1. Fixed rate relief is effectively a form of capital allowance available regardless of the accounting treatment. Were it to be available a finance lessor company would normally show an aggregate tax loss over the life of a lease generating commercial profits.

2. Reinvestment relief is not available by virtue of investment in a finance leased asset because, as reflected in the accounting treatment, the substance of the transaction is the making of a loan not the acquisition of an intangible asset. But the regulations do not modify the general rules concerning reinvestment relief in respect of taxable credits arising when the finance leased asset is realised.

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