HMRC - CFM95660 - x-Interest: Implicit Financing Costs

TIOPA10/S382 and TIOPA10/S385

The tax-interest amount includes amounts in respect of the financing costs implicit in amounts payable under a relevant arrangement or transaction. This includes:

A finance lease

Debt factoring

A service concession arrangement to the extent it is accounted for as a financial liability.

Example

A company acquires the use of an asset under a five year finance lease with rental payments of £10,000 per month. The total due under the lease is therefore £600,000 whereas the cost of buying the asset outright would have been £500,000. This £100,000 difference is the implied financing expense over the term of the lease and an expense of £20,000 will be included in the tax-interest amount each year to reflect this. The tax-interest amount for both lessor and lessee should therefore include this amount.

Hire Purchase Agreement

Under a hire purchase agreement a person may pay for an asset in instalments. The seller of the asset keeps ownership of the asset until the last payment has been made, but makes the asset available to be used by the purchaser. The purchaser usually has the right to acquire the asset at the end of the contract. Conditional sale agreements operate in a similar way, with the title passing automatically to the purchaser once they have made the final payment.

Often such arrangements are treated as a finance lease for accounting purposes. Where a hire purchase contract or conditional sale agreement is treated as a finance lease in the accounts then the implicit financing cost would be included in tax-interest, as income for the seller and expense for the purchaser.

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