HMRC - CFM97810 - Leasing: Overview

TIOPA10/S460

While payments under a lease are legally “rental payments”, they may, depending on the nature of the leasing agreement, be treated in several different ways for accounting and tax purpose.

The starting point is that where a lease is treated as a finance lease for accounting purposes the implicit finance cost in the lease payments should be included in {tax-interest} for both the lessor and the lessee. Likewise these amounts are also included in {relevant income and expense amounts} for calculating group-interest.

Where the tax and accounting treatment of the lease are aligned then the normal rules can be followed for calculating tax-EBITDA by excluding any capital allowances claimed by the company. This will be the case where:

An operating lease is not treated as a long funding lease; and

A finance lease is treated as a long funding lease.

However, where the tax and accounting treatment of the lease differ then the calculation of tax-EBITDA is modified. This will be the case where:

An operating lease is treated as a long funding lease; and

A finance lease is not treated as a long funding lease.

Introduction of IFRS 16

In January 2016 the International Accounting Standards Board (IASB) issued a new accounting standard (‘IFRS16’) for dealing with leases. This affects companies which apply International Financial Reporting Standards, including through the adoption of FRS 101. IFRS 16 is mandatory for periods commencing on or after 1 January 2019 (with early adoption permitted).

In particular, the new accounting standard is likely to mean that more assets and liabilities will be included in the lessee’s accounts. IFRS 16 does not change the position of the lessor.

Current tax treatment

FA11/S53 contains a rule which means that the tax rules are applied on the basis that there has been no change in the accounting standards dealing with leases. As such, any company which currenctly applies IFRS 16 (eg. early adopters) will need to prepare their tax computations on the basis of the old accounting requirements. This will also apply to the application of the corporate interest restriction rules.

From 1 January 2019

As a result of the introduction of the new accounting standard for leasing, IFRS 16, HMRC has proposed that certain legislative changes will be made to the corporate interest restriction rules, effective from 1 January 2019.

For further details, please refer to the consultation document:

https://www.gov.uk/government/consultations/corporate-interest-restricti…

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