HMRC - CFM97820 - Leasing: Long Funding Operating Leases

TIOPA10/S460(1)(a)-(b)

A long funding operating lease is lease of plant or machinery with a term of more than five years which meet tests intended to identify operating leases that serve a financing function. In these cases the lessee can typically obtain capital allowances in respect of the asset rather than the lessor.

Where plant or machinery is leased out under a long funding operating lease, CTA10/S363 provides a reduction in the lessor’s rental income representing the proportionate reduction in the value of the asset over the period, to reflect the lack of availability of capital allowances to the lessor. Conversely, CTA10/S379 restricts by the same amount the rental expense that the lessee can treat as deductible.

TIOPA10/S460 excludes each of the following when calculating a company’s adjusted corporation tax earnings when determining a company’s tax-EBITDA:

the amount of a deduction under CTA10/S363 (lessor under long funding operating lease);

the amount by which a deduction is reduced under CTA10/S379 (lessee under long funding operating lease);

Further guidance on the taxation of long funding operating leases can be found at BLM41000.

Previous page

Next page