HMRC - CFM97830 - Leasing: Finance Leases That Are Not Long Funding Leases

TIOPA10/S460(1)(c)-(d)

The Corporate Interest Restriction rules contain specific provision to deal with cases where a finance lease is not a long funding lease.

Accounting treatment

Accounting standards requires companies to treat lease rentals under a {finance lease} as if they contained ‘interest’ and ‘capital’ elements

The lessee will show in its income statement:

the ‘interest’ element of lease rentals, and;

depreciation of the leased asset over the shorter of the lease term and the asset’s expected useful life, taking into account the expected value of the asset at the end of the lease term.

The lessor will only show in its income statement the ‘interest’ element of lease rentals. The capital element of the lease receipts will be accounted for as a reduction in the finance lease receivable.

Tax treatment

Where a finance lease is not a {long funding lease}, the finance lessor is considered for tax purposes to have leased the asset to the lessee for a revenue hire charge. As a result the gross rentals due under a finance lease are considered to be revenue for tax purposes.

For the lessor, it therefore includes the whole of the rental receipts (including the capital element taken to the balance sheet) as taxable income for the period.

For the lessee, the charge for depreciation of the leased asset is not added back in the tax computation. Overall the total of the ‘interest’ and depreciation should equate to the rentals paid, net of any refund of rentals receivable on termination of the lease.

Further guidance on the taxation of finance leases which are not long funding can be found at BLM32200.

Adjustment to tax-EBITDA

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

the capital component of the company’s rental earnings under a finance lease which is not a long funding finance lease;

the amount of depreciation in respect of any asset leased to the company under a finance lease which is not a long funding finance lease.

Consequently these amounts should not be brought into account when calculating taxable total profits of the period to determine a company’s tax EBITDA.

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