Leasing: Tax response to accounting changes

Summary of discussion document responses and consultation

Publication date: 1 December 2017
Closing date for comments: 28 February 2018

Subject of this consultation:	Consultation on the legislative changes required to ensure leasing rules continue to work as originally intended for the new lease accounting standard IFRS16, and on the wider tax impact of that accounting change, which is mandatory for accounting periods beginning on or after 1 January 2019. Another document, “Corporate Interest Restriction: Tax response to accounting changes for leasing”, which is being published on the same date as this publication, also concerns the accounting change introduced by IFRS 16.
Scope of this consultation:	The accountancy and tax interaction of leasing; in particular in relation to plant or machinery, but also in relation to the wider impact of the accounting change.
Who should read this:	Customers who lease plant or machinery for use in their business, lessors of plant or machinery, customers who will account for other leases under the new accounting standard, agents and representative bodies.
Duration:	From 1 December 2017 to 28 February 2018
Lead official:	Jon Clarke
How to respond or enquire about this consultation:	Any comments or queries should be sent to jon.clarke@hmrc.gsi.gov.uk or by post to: Jon Clarke, Business, Assets & International, HM Revenue & Customs, 3/64, 100 Parliament Street, London SW1A 2BQ
Additional ways to be involved:	As this is largely a technical issue, the consultation responses are expected to be primarily in written form. However, if you would like to arrange a meeting to discuss your response, please contact Jon Clarke. If you would like to have this document in Welsh or alternate formats including large print or a Braille version please let us know and we will provide a copy.
After the consultation:	A summary of the responses will be published with draft legislation in 2018 with a view to being included in Finance Bill 2018 to 2019 and having effect for accounting periods commencing on or after 1 January 2019.
Getting to this stage:	Following previous discussions, we have reviewed the extensive tax legislation dealing with the leasing of plant and machinery, which will be affected by forthcoming changes to accounting standards.

Previous engagement:

In August 2016, HMRC published a discussion document which presented stakeholders with options to either make changes to the legislation to preserve the current tax treatment of leased plant and machinery or to move to a system of accounts-based depreciation. The majority of responses were in favour of the status quo because it provides stability and certainty.

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On request this document can be produced in Welsh and alternate formats including large print, audio and Braille formats

1 Introduction

1.1 On 9 August 2016 HMRC published a Discussion Document "Lease Accounting Changes: Tax Response". It identified that the new lease accounting standard of the International Accounting Standards Board (IASB) would have an impact on the UK's current tax regime for leasing of plant or machinery. In particular lessees using International Financial Reporting Standard (IFRS) 16 would no longer classify their leases as "finance" or "operating" leases. Instead they would have a "right of use" asset and a lease liability on their balance sheets. Current tax law relies on the finance lease/operating lease distinction at various places, but these changes will impact principally on long funding leases and anti-avoidance provisions.

1.2 The new IFRS 16 Leases standard replaces IAS 17 Leases and will be effective from 1 January 2019, with early adoption permitted. It should be noted that the accounting standard that is used by the majority of large and medium-sized UK entities, FRS 102, will retain the finance lease/operating lease distinction for both lessors and lessees.

1.3 The Discussion Document sought views on a range of options which addressed the changes and also, more widely, on whether recent developments in the leasing market and in the wider economic environment called for more radical lease tax reform.

1.4 The four options included for discussion ranged from maintaining the current regime to having an accounts-based regime with optional allowances.

1.5 HMRC is grateful to the respondents who provided written responses (26 in total) and the 51 stakeholders who shared their views at face-to-face meetings. Respondents welcomed the early engagement on these changes.

1.6 The responses received were from a mixture of professional and representative bodies, law firms, accountancy firms, lessors and lessees. Chapter 2 of this document summarises the responses given.

1.7 The majority of respondents favoured changes to the legislation that would preserve the status quo. The relative stability and certainty of the regime was one of the main reasons for this, along with the availability of capital allowances for lessors, and the ability of the Government to provide incentives for business investment.

1.8 **The Government has decided to maintain the current system of lease taxation by making legislative changes so that the rules continue to work as they do currently.**

1.9 The Government's intention is for tax changes to have effect for periods of account beginning on or after 1 January 2019 when International Accounting Standards (IAS) users must adopt IFRS 16.

1.10 In addition to lease taxation in respect of plant and machinery, the new accounting standard will have an impact on taxation in relation to leases more generally and the Government's proposals in this respect are included in this consultation.

1.11 This consultation (Chapter 3 onwards) will focus on the tax legislation that will need to change to enable the rules to continue to work as currently intended.

2 Summary of responses

Overview of the Discussion Document

2.1 Chapter 1 of the Discussion Document set out the relationship between lease accounting and tax since the introduction of the long funding lease regime in 2006. It articulated why the new IFRS 16 standard will be significant and who it will affect when it is implemented. It also set out the key factors to be taken into account in taking the issues forward.

2.2 Chapter 2 of the Discussion Document explained the different types of lease arrangement and set out the existing rules for lease accounting and tax in relation to plant and machinery. Chapter 3 set out the basics of the new lease accounting standard and the tax impacts resulting from its adoption.

2.3 Chapter 4 set out the possible options for tax changes and also made a request for stakeholders to consider other viable approaches to dealing with the change. Chapter 5 summarised the main questions posed for discussion.

The responses

2.4 Whilst responses took a variety of forms, for simplicity they have been organised below in the order that the questions were asked in the Discussion Document.

2.5 In addition, respondents asked us to consider other criteria:

- the impact of other consultations and work underway by HMRC. More than half of the representations focused on this. The area of work most mentioned in this connection was Corporate Interest Deductibility (BEPS 4) (now referred to as Corporate Interest Restriction);
- choice for customers where possible;
- the 'seismic' nature of potential changes;
- tax neutrality between options for purchasing and leasing; and
- costs for lessors and lessees (for the latter in the SME sector in particular).

Option 1 – Status quo

2.6 More than 50% of respondents favoured Option 1 - maintaining the current approach with necessary adaptations for IFRS 16 and simplification where possible. The main reasons given included:

- The system is in practice well understood and works - giving certainty.
- Despite the complications at the margins, there has been relative stability for lease taxation for several years, which has "been greatly appreciated by business".
- Capital allowances have the advantage of being objective as they are available to everyone at the same rate, unlike depreciation which can be open to a degree of subjectivity. Option 1 leaves intact the Government's

ability to incentivise and promote business growth, which was considered to be an important feature.
- Option 1 does not require complex transition (grandfathering) rules and gives certainty over past expenditure.

2.7 It was noted that "the removal of capital allowances on fixtures for property lessors would have serious and adverse consequences for the UK property industry" and that Option 1 ensures that capital allowances on fixtures are preserved for property lessors.

2.8 Those involved with infrastructure and long term leases were concerned that the loss of capital allowances to the lessor would have an impact on small and medium-sized enterprises (SMEs). A number of respondents advised that lessors currently incorporate assumptions on capital allowances in calculating lease rentals, meaning any benefit or disadvantage sits with the lessee.

2.9 Another concern was further disruption in a period of other significant changes to UK taxation – mainly 'Corporate Interest Deductibility' and pending changes to the 'Loss Relief' regime for companies.

2.10 However, although in the minority, a diverse range of respondents did not see the merit in maintaining the status quo. They said existing rules are complex and outdated, and so they welcomed the opportunity to simplify, especially for SME customers. It was also suggested that most of the complexity was introduced to prevent historic avoidance and, given the reduction in avoidance around leasing transactions since 2011, was no longer required.

Option 2 – Accounts-based regime

2.11 There was far less support for Option 2 – a move to an accounts basis for all leased assets that would result in capital allowances being replaced by accounts depreciation.

2.12 The main benefit identified was simplification. For some (but not all) in the car industry, the additional benefit envisaged "was an expectation for leasing rates to reduce, supporting investments". Other respondents noted that a move to an accounts-based regime would be welcome mainly for lessors of short life assets, but were concerned about the removal of the Government's ability to incentivise investment and felt option 4 was the preferable alternative.

2.13 Any substantive departures from the accounts basis to address potential abuse would be unhelpful, entailing a considerable volume of anti-avoidance legislation which would add to complexity and undermine its attractiveness.

2.14 The prospect of old and new rules running in tandem and/or transitional arrangements were a concern for nearly all respondents if any of Options 2 to 4 were adopted. In particular:

- what form such arrangements would take; and
- over what period they would remain in place.

2.15 Option 2 removes the Government's ability to incentivise expenditure on plant and machinery. This was viewed as being contrary to Government policy on growth and investment.

Option 3 – Accounts-based with new leasing allowance

2.16 None of the respondents favoured Option 3. It was expected to have a minimal impact on financing decisions and there were no perceived advantages over the capital allowances system.

2.17 There were a variety of reasons given but in the main:

- It would be a new scheme, which could bring its own uncertainties/complexities (especially for users of FRS 102, the standard to be applied by the majority of large and medium-sized UK entities) and would not be as well understood or (in some circumstances) as generous as capital allowances.
- People were concerned about the usability of the online calculator that was proposed in the Discussion Document, to enable lessees not using IFRS 16 to calculate a starting value and depreciation for the right of use asset.

2.18 Respondents said many lessees would not have access to the information which would be needed for an online calculator to be useful. Tinkering with rates or timing of depreciation of the right of use asset would also be an unnecessary complication and could possibly lead to companies arbitraging different tax rules.

2.19 In addition, most of the complexity identified with Option 2 was considered to apply equally to Option 3 (and Option 4).

Option 4 – Accounts-based with capital allowances for lessee

2.20 There was support for Option 4 from just over 20% of respondents. They thought that it offered simplification, easier compliance, the option of incentivising the lessee with capital allowances, levelling the playing field with other types of finance, and familiarity both with the accounts basis and the capital allowances regime. One agent also pointed out that car lessees choosing to claim capital allowances would be able to claim First Year Allowances on low emission cars, thus 'incentivising the uptake of such vehicles'. It was noted however that for other car users a capital allowances regime would be a disincentive as it would result in them having deferred tax assets.

2.21 Businesses were already familiar with the capital allowances regime (explaining the lack of appetite for Option 3).

2.22 A disadvantage of Option 4 (in addition to those set out under Option 2) was that it could restrict the availability of finance because of the adverse consequences to lessors who would no longer benefit from the timing benefit that capital allowances offered.

2.23 A few respondents were concerned that Options 2, 3 or 4 were a back door route to the abolition of capital allowances, including on fixtures for property lessors, whilst other businesses retained the benefit of capital allowances.

General

2.24 The responses to the Discussion Document support the idea that the potential impact of each of the proposed options on a business will depend to a significant degree on that business's particular circumstances. It follows that different options will appeal to different taxpayers depending on their tax profile.

Other Options

2.25 Proposals here included:

- offering a choice for taxpayers to decide the most appropriate treatment.
- establishing in tax law a distinction between finance and operating leases – simplified by providing that a finance lease is one in which, at the end of the lease agreement, the lessee can retain the asset at nominal or no charge;
- replacing the long funding lease rules, as they were introduced in order to bring the tax treatment of leasing plant and machinery more closely into line with accounting, and IFRS 16 will require, in general, assets to be included in the balance sheets of lessees.

Summary

2.26 There was general agreement that the key factors for consideration were:

- the current and future commercial environment;
- simplification where possible; and
- revenue protection for the Exchequer.

2.27 Overall the five issues regarded as of particular importance were:

- the ability of the Government to incentivise and promote a positive environment for business growth and investment through tax.
- transitional arrangements that might be involved if any of Options 2, 3 or 4 were adopted.
- the need to take a holistic approach to any changes made alongside other current areas of work such as Corporate Interest Restriction, Loss Relief rules and ring-fenced activities; (Nearly a third of respondents also asked us to look at the potential impacts for leases on property.)
- the need to ensure that any changes do not adversely affect the commercial decision on whether to purchase or lease an asset;
- the desire for simplification.

2.28 Responses to the Discussion Document indicated that currently accounts-based depreciation is undesirable to most stakeholders due to the vagaries of accounting and the difference in treatment from that of purchased assets.

2.29 The requirement for potentially long grandfathering rules was also of concern to respondents.

2.30 The Government has decided to maintain the current tax treatment for leased plant and machinery. This ensures we provide the stability and relative certainty that customers have asked for, whilst keeping a system (the long funding lease regime), that gives a choice between different forms of finance which is driven by commercial, rather than tax considerations.

2.31 Maintaining the status quo is also proportionate to the actual accounting change taking place, and will mainly impact those actually affected by IFRS 16.

2.32 The Government has also considered simplifications to the current legislation. Given the continuing application of the operating/finance lease distinction for lessees not using IFRS 16 (or FRS 101) there is a limit to the degree of simplification that is possible. However, one proposal in particular (on the definition of 'short leases' at paragraph 3.31 onwards) offers some reduction in complexity.

2.33 As part of their review of the corporation tax computation, the Office of Tax Simplification (OTS) recommended exploring the use of accounting depreciation instead of capital allowances. The government recognises that there could be significant issues arising from this change, including fiscal cost, avoidance opportunities and likely winners and losers, and the Chancellor has asked the OTS to undertake a review exploring the impact and challenges of this change. This report will enhance understanding and engagement within this area and prepare the ground for further debate.

3 Proposed changes

3.1 In the discussion that follows, various tax rules are paraphrased or otherwise set out in their broad effect, and the descriptions are not intended to be comprehensive in their detail, but rather to give general illustrations for the purposes of setting out the proposed changes.

Long funding lease rules

The tax policy intention

3.2 A lease is an agreement whereby one person (the lessor) hires an asset to another (the lessee) for a series of rental payments over an agreed period of time.

3.3 Leasing can cover anything from the hiring of a power tool for a day or so, through the hiring of a car for months, to the hiring of a fleet of aircraft for decades or the hire of a building for centuries.

3.4 The legal ownership of the asset lies with the lessor and the lessee only has the right to use the asset. However, the terms and conditions of some leases mean that, commercially, those leases are a method of providing finance. In other words, in economic substance such a lease is a loan of money with the asset as security. The 'economic' ownership of the asset - the risks and rewards of ownership - lies with the lessee and the lessee is, in effect, buying the asset with a loan from the lessor.

3.5 To put it another way, such a lease may be viewed as an arrangement under which one person (the lessor) provides the money to buy an asset which is used by another (the lessee) in return for an interest charge. The lessor has security because they own the asset. The terms of the leasing arrangements aim to give the lessor a banker's interest turn and no more or less - however good or bad the asset proves to be for the end user.

3.6 Where a lease of plant or machinery is essentially a form of financing, the Government's intention is that, where possible, for leases over a certain duration, the tax treatment follows that applied to an acquisition of plant or machinery financed by way of loan. Tax legislation (in the form of the long funding lease rules) aims to realise that intention by, in specified circumstances, giving entitlement to the capital allowances for the plant or machinery to the lessee (rather than the lessor) - broadly treating the lessee as having purchased the asset. It also restricts the deduction available to the lessee for rents payable to the financing charge element and taxes the lessor only on that financing charge element of the rental.

3.7 Where the long funding lease rules do not apply, rental payments are generally deductible and taxable in accordance with their legal character, with (where necessary) the apportionment of deductions and receipts between accounting periods over the term of the lease being done on a basis consistent with ordinary accruals principles.

The IFRS 16 changes

3.8 The Discussion Document set out the current rules for lease accounting and taxation and the impact that IFRS 16 will have. It explained that IFRS 16 Leases will replace IAS 17 Leases and becomes mandatory for accounting periods beginning on or after 1 January 2019 (though early adoption is permitted where IFRS 15 is also applied). Under the new standard, leases will be brought onto a business's balance sheet, increasing the visibility of its assets and liabilities.

3.9 As explained, IFRS 16 also removes the classification of leases as either finance leases or operating leases for the lessee, treating all leases as on-balance sheet leases. Importantly, for lessees, the new accounting standard does not require them to determine whether or not the arrangements transfer the risks and rewards of ownership of the leased asset.

3.10 All lessees under IFRS 16 will record at the outset a *right of use* asset and a liability to pay rentals under the lease. Both are valued at commencement of the lease by reference to the present value of the payments under the lease. The *right of use* asset is depreciated, normally on a straight line basis over the term of the lease.

3.11 In its profit and loss statement, the lessee will show interest expense on the liability separately from the depreciation charge in respect of the right of use asset.

3.12 The two main optional exceptions to this approach are;

- where a lease has a term of 12 months or less (short leases) and
- where low value assets (guidance suggests less than $5,000) are leased (for example, computers).

In these circumstances the lessee is not required to record a right to use the asset or a liability to pay. Instead the lessee will charge the rents payable to its income statement, usually on a straight line basis.

3.13 Lessor accounting under IFRS 16 is similar to the current arrangements though there are some changes to the definitions of lease, sale and leaseback arrangements and sub-leases and to the disclosure requirements.

Generally Accepted Accounting Practice in the UK (UK GAAP)

3.14 UK GAAP includes FRS 101, FRS 102 and FRS 105. FRS 101 uses the recognition and measurements requirements of EU-adopted IFRS. It can be adopted by certain qualifying entities in the UK, including members of a group

where the parent produces publicly available consolidated financial statements. FRS 101 users will therefore be within the scope of the requirements of IFRS 16. FRS 102 and FRS 105 are in line with the current lease accounting standard, IAS 17, and retain the finance lease/operating lease distinction for both lessors and lessees. (Unless specifically stated otherwise, 'FRS 102' will be used in this document to refer to both FRS 102 and FRS 105.)

What does 'status quo' mean?

3.15 The Discussion Document stated that the status quo would mean 'minimal changes to the statutory provisions to ensure that the current regime continues to function to deliver the same outcome for tax purposes'. The decision to maintain the status quo therefore acknowledges the reality, that for the majority of businesses who undertake leasing transactions, there will be no change.

3.16 Essentially, maintaining the status quo will mean that the existing tax rules will broadly apply as they do now in respect of the substance of the lease arrangements. In more detail:

- For lessors using either IFRS 16 or FRS 102 and for lessees using FRS 102 (both of which groups will continue to distinguish between operating and finance leases) we will use the existing rules in determining the tax treatment for leases.
- For lessees using IFRS 16, the long funding lease rules will apply (or not as the case may be) in accordance with the substance of the lease arrangements, but using the reporting of the relevant assets, liabilities and costs that is available in the accounts as they are drawn up under the new standard.
- Where the long funding lease rules do not apply, the application of generally accepted accounting practice – whether IFRS 16 or FRS 102 – will, subject to existing exceptions, continue to give the quantum of the rental payments that are allowable deductions for tax purposes.

Long funding lease rules – proposed changes

3.17 Before the introduction of the long funding lease regime in 2006, for a leasing transaction, the lessor was entitled to capital allowances on its expenditure in acquiring the asset which it leased out, and was taxable on gross rentals received. The lessee was, broadly, entitled to a deduction for all rentals payable. This continues to be the position for leases which are not long funding leases.

3.18 The long funding lease rules introduced by Finance Act 2006 – in short, and in very broad terms – tax long funding leases in a similar way to a loan (though they are not loans and so are not taxed as loans under the loan relationship rules).

3.19 The rules, in Chapters 6 and 6A of the Capital Allowances Act (CAA) 2001, mainly concern the treatment of lessees under long funding leases, so changes will be required to these in order to ensure they continue to work effectively for lessees adopting IFRS 16.

3.20 In particular, changes will be required so that the legislation can continue to identify funding leases in the absence of the finance lease/operating lease distinction, and to allow the rules which currently apply in respect of long funding finance leases, to apply to all long funding leases accounted for by lessees using IFRS 16, in addition to finance leases of FRS 102 users. Annex B contains a list of the provisions which currently apply in respect of long funding finance leases, which will apply in respect of all long funding leases accounted for under IFRS 16.

Sections 70B and 70C, CAA 2001 – Amount of capital expenditure

3.21 Currently, the amount of capital expenditure treated as incurred under a long funding lease is determined according to whether the lease is a long funding operating lease (LFOL) or a long funding finance lease (LFFL). Section 70B CAA 2001 provides that the amount of capital expenditure for a LFOL is to be determined by the market value of the plant or machinery at the start of the lease or when it is first used. In contrast, section 70C uses the concept of 'commencement PVMLP' – the "present value (at the start of the lease) of the minimum lease payments". PVMLP will often be less than the market value of the plant or machinery being leased.

3.22 We propose that the current rules for determining the amount of capital expenditure for long funding finance leases (at section 70C CAA 2001) should apply to all long funding leases (LFLs), which are either finance leases under FRS 102 or any leases under IFRS 16 (subject to the exceptions).

3.23 This would mean that a lessee adopting IFRS 16, who would currently classify their lease as an operating lease and determine the amount of capital expenditure under section 70B as the market value of the plant or machinery, would, for accounting periods beginning on or after 1 January 2019, use the rules of section 70C and 'commencement PVMLP', subject to the detailed rules of that section.

Section 70D – Additional expenditure

3.24 This section allows a lessee under a LFFL to be treated as incurring additional capital expenditure where the lessor incurs additional expenditure (perhaps enhancing a leased asset to increase capacity or to comply with new regulations) and the lease payments increase as a consequence. The corresponding increase in the present value of the minimum lease payments qualifies for capital allowances.

3.25 This does not apply for lessees under LFOLs. The amount on which capital allowances is claimed remains the same. So a lessee under a long funding operating lease, instead of receiving increased capital allowances in respect of additional expenditure by the lessor on the leased asset, receives relief as a revenue deduction for any increased rentals payable in respect of the additional expenditure.

3.26 It is proposed that section 70D would apply for IFRS 16 leases but not for FRS 102 leases that were LFOLs.

Q1. Are there any arrangements that could be disadvantaged by this approach, compared to the current treatment?

Section 70E – Disposal events and disposal values

3.27 This section deals with the amounts to be brought into account following a disposal event where the lease is a long funding lease.

3.28 Subsection (2B) provides what is "the qualifying amount" (for disposal value purposes) in the case of a long funding operating lease and will continue to apply for FRS 102 users.

3.29 Subsections (2C) to (2H) set out the rules for determining the qualifying amount in the case of a long funding finance lease and will be extended to apply to all LFLs accounted for under IFRS 16.

Section 70I - "Short lease"

3.30 Section 70I defines a short lease. A lease is a short lease if its term is 5 years or less, or more than 5 years but not longer than 7 years if Conditions A, B, and C are met.

3.31 At the time that the long funding lease rules were being considered HMRC published a Technical Note in December 2004 which said the following:

> Where a lease is longer than about 4 years but less than about 6 years the tax timing benefit in the lease is small providing the lease rentals are broadly the same throughout the lease term and repay substantially all the capital (i.e. the lease has no significant residual value). Were there to be large variations in lease rentals, substantial tax timing advantages could be obtained such that they could affect a business's decision on the way it finances an asset.

Condition A, B and C are intended to ensure that the definition of a short lease does not provide a significant tax timing advantage.

3.32 The provisions of section 70I were introduced at a time when the main pool Writing Down Allowance for plant and machinery was 25%. The main pool rate is now 18%. In view of the reduction in the rate, the Government is considering simplifying the short lease rules for new leases (but not "recycled" existing leases) by removing Conditions A, B and C and providing that a lease is a short lease if its term is 7 years or less.

Q2. Would the change to the short lease rules be a useful simplification? Would it provide a distorting tax timing advantage of one method of asset finance over others?

Section 70J - “Funding lease”

3.33 This section defines what is meant by the term “funding lease”. Subsection (1) explains that a funding lease is a plant or machinery lease (as defined in section 70K) that meets one or more tests at inception. These tests are the finance lease test (defined in section 70N), the lease payments test (defined in section 70O), and the useful economic life test (defined in section 70P). Broadly, they are intended to identify leases that perform a financing function.

Section 70N – The finance lease test

3.34 The finance lease test at S70N CAA 2001, is met if the lease is one which falls to be treated as a loan in accounts that are prepared under generally accepted accounting principles. With the removal of the finance lease/operating lease distinction under IFRS 16, we intend to replace this test for accounting periods ending on or after 1 January 2019.

3.35 It is proposed to replace the finance lease test with a test that can be applied by lessees using IFRS 16 whose accounts have not classified their leases as either finance or operating leases.

3.36 Under both IFRS 16 (for lessors) and FRS 102 (for lessors and lessees alike) a lease is a finance lease “if it transfers substantially all the risks and rewards incidental to ownership” of an asset. A replacement for the finance lease test might use this condition, based on the criteria set out in both standards that are used to determine whether or not a lease achieves this result. This would maintain the effect of the long funding lease rules of identifying leasing arrangements that perform a financing function.

3.37 As is the case at present, where a lease does not meet the test which will replace the finance lease test, lessors and lessees will need to consider the ‘lease payments test’ at S70O CAA 2001 and the ‘useful economic life test’ at S70P CAA 2001.

Q3. Would the replacement of the current finance lease test at section 70N CAA 2001 by a new test, based on the question of the transfer of the risks and rewards of ownership, be a practicable change for lessees using IFRS 16? Is there a better way for those businesses to identify funding leases?

Section 70O - The lease payments test

3.38 The lease payments test is met when the present value of the minimum lease payments is equal to or more than 80% of the fair value of the asset. Minimum lease payments are defined at s70YE. The ‘present value’ of the minimum lease payments is calculated by using the interest rate implicit in the lease, which is the interest rate that would apply in accordance with normal commercial criteria, including generally accepted accounting practice.

Section 70P - The useful economic life test

3.39 The useful economic life test is met if the term of the lease is more than 65 per cent of the remaining useful economic life of the asset. The remaining useful economic life is defined in section 70YI CAA.

Section 70YA - Change in accountancy classification of a long funding lease

3.40 This section deals with the consequences of a change in the accounting classification of a lease, for example, where accounting standards change and require the new standard to be applied to existing leases. Where this happens, for the rules taxing long funding leases to work, it is necessary to treat the lease as having been terminated and a new one begun at the point the accounting treatment changes. These rules apply to both lessors and lessees.

3.41 The basic proposition is that where, in the relevant accounts, the accounting classification changes from an operating lease to a finance lease, or vice versa, the lessor (or lessee, as appropriate) is treated as terminating the existing lease and entering into a new lease at the time of the change.

3.42 It is proposed that Section 70YA should continue to apply, including in respect of lessees moving from accounting for leases as operating leases to IFRS 16 leases solely because of the change to the IAS. It is also proposed that the provision should not apply to lessees accounting for leases as finance leases under the current IAS and moving to IFRS 16.

Q4. Are any problems envisaged from the application of section 70YA to operating lessees adopting IFRS 16? In particular, might this distort commercial decisions to change from one accounting standard to another?

Section 70YB – Long funding operating lease: extension of term of lease

3.43 The provision at section 70YB(1)(c) relates to accounting changes to which section 70YA apply. Therefore the decision on changes to section 70YA will determine the nature of any changes to section 70YB(1)(c).

Section 70YI - General definitions

3.44 The definitions set out in Section 70YI will require changes in accordance with the substantive changes to other provisions in Chapters 6 and 6A. In particular, the alteration of the finance lease test may require new references and/or definitions if various terms, such as ‘long funding finance lease’ and ‘long funding operating lease’ are retained.

Corporation Tax Act 2010 (CTA 2010)

3.45 Lessees under long funding leases obtain relief for part of the lease rental payments by way of capital allowances. It follows that it is necessary to restrict the relief that would otherwise be available for rentals payable under the lease.

3.46 Chapter 2 of Part 9 of CTA 2010 contains the income and deduction rules on long funding leases (LFLs) of plant or machinery for companies and there are corresponding rules for unincorporated businesses in Chapter 10A of Part 2 of

Income Tax (Trading and Other Income Act 2005 (ITTOIA). For the purposes of this document the proposals will be discussed in relation to the provisions in CTA 2010 but they apply equally to those in ITTOIA.

3.47 The income and deduction rules for LFLs need to be consistent with the proposals outlined above in respect of the capital allowances rules. It is proposed that the rules in Chapter 2 of Part 9 that apply in respect of deductions that a lessee under a long funding finance lease may make, will apply to all LFLs, which are either finance leases under FRS 102 or leases generally under IFRS 16 (subject again to the exceptions).

3.48 On the same basis, expenditure rules that apply to lessees under long funding operating leases will continue to apply for those using FRS 102.

3.49 As with the capital allowances provisions, the alteration of the finance lease test may necessitate changes to definitions and references in Chapter 2 of Part 9.

The lease rental restriction

3.50 The principle of the lease rental restriction is that, since part of the rental payment is relieved by way of capital allowances, the amount to be relieved by deduction in calculating the lessee company's profits should be restricted to the element of the rental payment for which capital allowances has not been claimed. The lease rental restriction rules provide for the calculation of the corporation tax profits of lessees under long funding leases and work differently depending on whether the long funding lease is a finance lease or an operating lease. Sections 377 and 378 relate to long funding finance leases and sections 379 and 380 relate to long funding operating leases.

Sections 377 and 378 – Lessees under long funding finance leases

3.51 These rules will apply to lessees using IFRS 16 under all long funding leases and lessees using FRS 102 under long funding finance leases. So, where lessees using IFRS 16 were previously accounting for leases as operating leases and applying the rules of sections 379 and 380, they will now be applying these rules instead.

3.52 It is intended that this approach will apply to existing leases. Where existing leases were accounted for by lessees as operating leases under IAS 17, they will no longer be classified as operating leases for under IFRS 16. So where the rules of sections 379 and 380 apply to those leases for accounting periods beginning before 1 January 2019, for accounting periods beginning on or after that date, the rules of sections 377 and 378 will apply.

Sections 379 and 380 – Lessees under long funding operating leases

3.53 These sections will continue to apply to lessees accounting for long funding leases as operating leases under FRS 102.

Q5. What issues are likely to arise from the application of the rules of sections 377 and 378 CTA 2010 for new and, in particular, existing leases that would

previously have been long funding operating leases but which are now accounted for by lessees under IFRS 16?

Leases that are not long funding leases

3.54 As mentioned above, the tax treatment of lessees in respect of leases that are not long funding leases follows the general principles of taxation of income and deduction of expenditure.

3.55 Therefore for tax purposes the timing of rental deductions under an operating lease follows the correct application of GAAP and no adjustment is needed for tax purposes from the deduction of rental payments in the P&L. For those lessees using FRS 102, this will continue to be the case.

3.56 For lessees adopting IFRS 16 and previously classifying their leases as operating leases, they will now be in the same position as lessees under finance leases. The gross rentals payable by a lessee will, in law, be revenue in nature and deductible in computing profits (to the extent that the asset is used for the purposes of the lessee's trade), even though the accounting may now follow the substance of the arrangement and represent the payments as the repayment of a loan.

3.57 Where a lessee accounts for a transaction under IFRS 16, the deduction of rentals equal to the amounts shown in the accounts in respect of: (i), the finance charge ('interest'); and (ii), the depreciation charge relating to the right of use asset, will normally be the appropriate way of achieving a spread of the lessee's gross rentals which is consistent with the accruals concept.

3.58 HMRC's view of the tax treatment of a lessee's rentals under a finance lease which is not a long funding lease is set out in the Business Leasing Manual, at BLM32205 and the subsequent pages. This guidance will be amended to include all lessees using IFRS 16 in respect of leases which are not long funding leases.

3.59 It is recognised that the change to IFRS 16 will result in interest in each accounting period being the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. As that balance declines over the term of the lease, so will the interest charged in successive periods of account. This will be in contrast to the treatment of lease payments under an operating lease which would generally be recognised as an expense on a straight-line basis over the lease term.

3.60 See Chapter 4 for a discussion of the change from one accounting basis to another for an existing lease.

Other legislation affected by the change

Section 67 CAA 2001 - Plant or machinery treated as owned by person entitled to benefit of contract etc

3.61 Section 67 concerns the treatment of plant or machinery provided by lessees, where hire purchase is involved.

3.62 It applies if a person is carrying on a qualifying activity, incurs capital expenditure, for plant and machinery and the expenditure is incurred under the proviso that the person may become the owner of the plant or machinery on performance of the contract.

3.63 Where the contract is a lease the plant or machinery is only treated as owned by the person entitled to the benefit of the contract if the lease is treated as a finance lease.

3.64 The rule that refers to the contract being treated as a finance lease will no longer work for lessees who report under IFRS 16, because they will no longer distinguish between finance and operating leases for the purposes of their accounts. In order that the rules in section 67 continue to work when IFRS 16 is implemented we would like it to continue to apply to 'finance-type' leases.

3.65 It is proposed that in section 67, for users of IFRS 16, the condition of a lease being treated as a finance lease is replaced by a condition that a lease meets the proposed new test at section 70N CAA 2001 (see 3.34 to 3.36 above).

Sale of Lessors legislation

3.66 The legislation in CTA 2010, Part 9, Chapters 3 and Chapters 4 (and Chapters 5 and 6), counters the advantage obtained on the sale of a lessor company when the timing benefits derived from capital allowances have been taken by the selling group and there is a risk that the deferred tax profits will fall out of taxation in the hands of a buying group.

3.67 Chapter 3 deals with the sale of a lessor company. Chapter 4 deals with similar partnership arrangements. Each contains references to finance leases. Chapter 5 contains certain anti-avoidance provisions that are not affected by the accounting changes and so are not discussed here. Chapter 6 contains interpretive provisions that will need to be adjusted.

3.68 Provisions within Chapters 3 and 4 relating to the questions of:

- whether companies or companies in partnership are carrying on a business of leasing plant or machinery; and
- the amount of income that is treated under the legislation as a receipt of the business;

rely on the amounts shown on the company's or the partnership's balance sheet in respect of finance leases. The approach of introducing the section 70N

test (as mentioned at 3.65 above in relation to section 67 CAA 2001) where accounts using IFRS 16 will no longer classify leases as finance or operating leases will be applied here. The relevant provisions are listed in Annex C, along with section 67.

Oil activities and the ring fence - Sections 288 and 331 CTA 2010

3.69 Section 288 disallows from the North Sea Oil ring fence corporation tax computation certain amounts payable in respect of a lease which is part of a sale and leaseback arrangement. Section 331 includes similar amounts as financing costs which are left out of account in calculating ring fence profits for the purposes of the supplementary charge in respect of ring fence trades.

3.70 The items disallowed by section 288 and included by section 331 are the finance charge in respect of a finance lease and the amount treated as deductible by virtue of section 379 in respect of a long funding operating lease.

3.71 For users of IFRS 16 it is intended to preserve the current effect of these provisions by adopting the approach outlined at 3.65 above.

3.72 The existing rules will continue to apply to users of FRS 102.

Q6. Are any issues likely to arise with this approach to the North Sea Oil ring fence rules? Is another approach preferable?

Other references in tax legislation requiring adjustment

3.73 Annex D lists provisions that will require adjustment in terms of referencing or definitions, including the oil taxation provisions mentioned in the previous paragraphs.

Interaction with Corporate Interest Restriction (CIR) rules

3.74 The CIR rules will need amending to take account of IFRS 16. In particular, changes will be needed for lessees adopting IFRS 16 because the distinction between finance leases and operating leases that it removes is a key test in the CIR rules for determining which amounts fall within the scope of the restriction. The proposed repeal of section 53 FA 2011 (see below) means that this accounting change cannot be ignored for the purposes of the CIR rules.

3.75 This paper is primarily concerned with plant and machinery leases. Any changes to the CIR rules will apply to all types of leases and therefore a separate consultation is being carried out on the proposed changes to the CIR rules with the publication of “Corporate Interest Restriction: Tax response to accounting changes for leasing” simultaneously with this document.

3.76 Any correspondence relating to the CIR rules should be sent to the CIR mailbox: interest-restriction.mailbox@hmrc.gsi.gov.uk

Leasing legislation not affected by the change

Chapter 17 CAA 2001 – Sale and finance leasebacks

3.77 The anti-avoidance rules on sale and finance leaseback are in this Chapter and involve the definition of a finance lease. The definition is by reference to the accounting treatment of the lease in the accounts of the lessor. IFRS 16 does not change the treatment of leases in the accounts of the lessor. Therefore no legislative change is needed in Chapter 17 to maintain the current application of the rules.

Exceptions to the IFRS 16 rules (short life and low value asset treatment)

3.78 IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Where lessees are thereby not required to recognise assets and liabilities for leases, it is considered that no legislative change is needed to maintain the current tax treatment.

Part 21 of CTA 2010 and Part 11A of ITA 2007 Leasing Arrangements: Finance Leases and Loans

3.79 The rules in Part 21 CTA 2010 (and Part 11A ITA 2007) counter arrangements that turn what would normally be the lessor's rental income into a capital gain or that defer the recognition of income for tax purposes, thus producing a mismatch between the commercial accounts earnings and the tax earnings.

3.80 In addition there are rules that in some circumstances restrict the taxable element of a finance lessor's income in the case of a sale and finance leaseback and lease and finance leaseback.

3.81 As Part 21 and Part 11A deal entirely with the treatment of the leasing arrangements of lessors they are not affected by the accounting changes and do not require changes.

4 Section 53 Finance Act 2011

4.1 Many stakeholders will be aware that several iterations of the new IFRS leasing standard were published as exposure drafts before the final standard IFRS16 was approved. As an interim measure, Finance Act 2011 (FA 2011) introduced legislation which ensured that businesses that account for leasing transactions using a leasing standard, would continue to apply the same tax treatment regardless of whether or not the accounting standard changed.

4.2 This was introduced to provide certainty for businesses and continuity of tax treatment for lease transactions. It enabled the tax treatment to continue to work even if a new standard was introduced and implemented before the tax legislation could be altered.

4.3 Section 53 FA 2011 was intended as a temporary measure. In addition to the above, it ensured lessors and lessee would neither be advantaged nor disadvantaged for tax purposes by the accounting changes proposed at the time.

4.4 In conjunction with changes as outlined above, the intention is to repeal this section for accounting periods commencing on or after 1 January 2019. This will ensure there is no confusion as to how customers should work out the tax treatment of a lease and will also avoid the potential complication of being required to use one method for accounting and another for tax purposes.

4.5 The implications of repealing section 53 FA 2011 for long funding leases are discussed in detail in the previous chapter.

4.6 For leases classified as finance leases under IAS 17 or FRS 102, the repeal of section 53 FA 2011 is not expected to have an impact as it is not expected that there will be transitional accounting adjustments made upon adoption of IFRS 16.

4.7 However, for leases currently classified as operating leases under IAS 17 or FRS 102, that are not long-funding leases (for example leases of land and buildings, in addition to plant and machinery leases that do not meet the long funding lease tests) it is expected that accounting adjustments will be required on transition to IFRS 16. The repeal of section 53 FA 2011 means that these adjustments will need to be taken into account for tax purposes.

4.8 The change to IFRS 16 will result in interest in each accounting period being the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. As that balance declines over the term of the lease, so will the interest charged in successive periods of account. This will be in contrast to the previous accounting treatment of lease payments under an operating lease which would generally be recognised as an expense on a straight-line basis over the lease term.

4.9 For lessees adopting IFRS 16 and previously classifying their existing leases as operating leases, the change to IFRS 16 mid-lease may result in an adjustment to reserves, reflecting a difference between the respective values of assets and liabilities brought onto the balance sheet.

4.10 For businesses with operating leases choosing to early-adopt IFRS 16, prior to the legislative changes proposed in this consultation taking effect, the tax treatment of the leases will continue to be subject to the existing requirements of section 53 FA 2011. No accounting adjustment will be brought into account for tax purposes in the year of transition. As the change of basis rules in Chapter 14 of Corporation Tax Act 2009 and Chapter 17 of the Income Tax (Trading and Other Income) Act 2005 specifically exclude changes to comply with new legislation (i.e. the legislation that will repeal section 53), the Government proposes to make specific provision to ensure the transitional adjustment is recognised for tax purposes to provide fair treatment for early adopters.

4.11 The adoption of IFRS 16 in conjunction with the repeal of section 53 FA 2011 is likely to represent a change of basis on which profits of a trade or property business are calculated for tax purposes as there is a change of accounting policy. In accordance with the relevant change of basis rules, positive or negative adjustments will need to be calculated and brought into account in the first period of account of the new basis, to ensure that business receipts will be taxed once and once only and deductions will be given once and once only.

4.12 On transition to IFRS 16, businesses with existing operating leases will need to recognise a lease liability at the present value of remaining lease payments.

4.13 As regards the associated right of use asset, there are several accounting options regarding the initial recognition of this item, including the option to recognise the asset at an amount based on the lease liability. Where that approach is not adopted, and the value of the right of use asset is not matched with the value of the lease liability, the transitional adjustments would go through the profit and loss reserves representing additional rents that, with the repeal of section 53 FA 2011, will be deductible for tax purposes for leases that are not within the long-funding lease regime.

4.14 In order to both mitigate the aggregate Exchequer exposure to the possible tax impact of these changes and avoid tax influencing the commercial choice between different forms of finance, and in the interests of simplicity and certainty, the Government proposes that for tax purposes the right of use asset should be recognised on transition at an amount based on the value of the lease liability. Where the business did not choose to recognise the asset based on the lease liability this would require a business to maintain records of different lease rental figures for accounting and tax purposes.

Q7. Are there other issues expected to arise from the repeal of section 53 FA 2011? What is your preferred option to mitigate Exchequer exposure upon transition? Do you expect the transitional impact on reserves of moving to IFRS 16 to be significant for many businesses or for individual business

sectors? If so, please provide information or evidence to support that view. Are there other, more favourable options that would reduce legislative complexity or administrative burdens for businesses?

5 Assessment of Impacts

Exchequer impact

As the government has decided to maintain the current tax treatment for leased plant and machinery there are no additional costs associated with this proposal.

6 Summary of Consultation Questions

Q1. Are there any arrangements that could be disadvantaged by this approach, compared to the current treatment?

Q2. Would the change to the short lease rules be a useful simplification? Would it provide a distorting tax timing advantage of one method of asset finance over others?

Q3. Would the replacement of the current finance lease test at section 70N CAA 2001 by a new test, based on the question of the transfer of the risks and rewards of ownership, be a practicable change for lessees using IFRS 16? Is there a better way for those businesses to identify funding leases?

Q4. Are any problems envisaged from the application of section 70YA to operating lessees adopting IFRS 16? In particular, might this distort commercial decisions to change from one accounting standard to another?

Q5. What issues are likely to arise from the application of the rules of sections 377 and 378 CTA 2010 for new and particularly existing leases that would previously have been long funding operating leases but which are now accounted for by lessees under IFRS 16?

Q6. Are any issues likely to arise with this approach to the North Sea Oil ring fence rules? Is another approach preferable?

Q7. Are there other issues expected to arise from the repeal of section 53 FA 2011? What is your preferred option to mitigate Exchequer exposure upon transition? Do you expect the transitional impact on reserves of moving to IFRS 16 to be significant for many businesses or for individual business sectors? If so, please provide information or evidence to support that view. Are there other, more favourable options that would reduce legislative complexity or administrative burdens for businesses?

7 The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

How to respond

A summary of the questions in this consultation is included at chapter 6.

Responses should be sent by 28 February 2018, by e-mail to jon.clarke@hmrc.gsi.gov.uk or by post to: Jon Clarke, Business, Assets & International, HM Revenue & Customs, 3/64, 100 Parliament Street, London SW1A 2BQ

Telephone enquiries: 03000 585219

Please do not send consultation responses to the Consultation Coordinator.

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from HMRC's GOV.UK pages. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes.

These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentially can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

This consultation is being run in accordance with the Government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance

If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the consultation to this address.

Annex A: List of stakeholders consulted

HMRC is grateful to the following who provided written responses

1 The 100 Group Taxation Committee
2 Association of Accounting Technicians (AAT)
3 The Association of British Independent Oil Exploration Companies (BRINDEX)
4 British Vehicle Rental and Leasing Association (BVRLA)
5 City of London Law Society
6 Freshfields Bruckhaus Deringer LLP
7 Deloitte LLP
8 Ernst & Young LLP
9 FTI Consulting LLP
10 Grant Thornton LLP
11 ICAEW
12 Institute of Chartered Accountants of Scotland (ICAS)
13 KPMG LLP
14 Pinsent Masons LLP
15 Price Waterhouse Coopers LLP
16 UK Oil Industry Taxation Committee
17 Confederation of Business Industry
18 Finance & Leasing Association (FLA)

Nine named business and individuals also provided responses

HMRC is grateful to stakeholders who facilitated and provided responses at face to face meetings and teleconferences, including:

1 Price Waterhouse Coopers LLP
2 BVRLA British Vehicle Licensing Association
3 Deloitte LLP
4 KPMG LLP
5 Ernst & Young LLP
6 Finance & Leasing Association
7 CMS Cameron McKenna Nabarro Olswang LLP
8 Allen & Overy LLP
9 Norton Rose Fulbright LLP

And other named individuals and businesses.

Annex B: Relevant (current) legislation which applies in respect of long funding finance leases, which will apply to all long funding leases accounted for under IFRS 16

Act	Section	Subsection	Detail
CAA 2001	70C		Long funding finance lease: amount of capital expenditure
	70D		Long funding finance lease: additional expenditure: allowances for lessee
	70E	(2C) to (2H)	Disposal events and disposal values rules applying to long funding finance leases
	70YG	(5)	“Termination amount” where subsection (3) does not apply
ITTOIA 2005	148G		Lessee under long funding finance lease: limit on deductions
	148H		Lessee under long funding finance lease: termination
CTA 2010	377		Lessee under long funding finance lease: limit on deductions
	378		Lessee under long funding finance lease: termination

Annex C: Relevant (current) legislation which applies in respect of finance leases, where a replacement for the finance lease test will be applied.

Act	Section	Subsection	Detail
CAA 2001	67	(2B)	“treated by that person in accordance with generally accepted accounting practice as a finance lease”
CTA 2010	389	(1)(b)	“the net investment in respect of finance leases of the plant or machinery”
		(3)	“If— (a) any of the plant or machinery is subject to a finance lease”
	401	(1)(b)	“the net investment in respect of finance leases of the plant or machinery”
		(3)	“If— (a) any of the plant or machinery is subject to a finance lease”
	407	(2)	“any plant or machinery…if an amount would be shown in respect of it in a balance sheet of the company”
	412	(1)(b)	“the net investment in respect of finance leases of the plant or machinery”
		(3)	“If—

			(a) any of the plant or machinery is subject to a finance lease”

Annex D: Other relevant (current) legislation which contains references or definitions that may require adjustment in respect of the changes proposed in this consultation.

Act	Section	Subsection	Heading
TCGA 1992	25A	(5)	Long funding leases of plant or machinery: deemed disposals
CAA 2001	61	(2) 5A and 5B	Disposal events and disposal values
ITTOIA 2005	55B	(7)	Rental rebates
	148A		Lessor under long funding finance lease: rental earnings
	148B		Lessor under long funding finance lease: exceptional items
	148C		Lessor under long funding finance lease making termination payment
	148D		Lessor under long funding operating lease: periodic deduction
	148DA	(1), (5) and (6)	“Starting value”: general
	148DB	(1)	“Starting value” where plant or machinery originally unqualifying
	148E		Long funding operating lease: lessor's additional expenditure
	148F		Lessor under long funding operating lease: termination of lease
	148I		Lessee under long funding operating lease
ITA 2007	809ZE	(2)(b)	“Capital payment”, “relevant capital payment” etc
CTA 2009	60A	(7)	Rental rebates
	507	(1)(i)	Investment bond arrangements
	548	(3)	Meaning of debtor repo
	549	(3)	Meaning of debtor quasi-repo
	551	(4)	Relief for borrower for finance charges in respect of the advance
CTA 2010	288	(5)	Sale and lease-back
	331	(3)	Meaning of “financing costs” etc
	359	(1)	Overview of Chapter
	360		Lessor under long funding finance lease: rental earnings

	361		Lessor under long funding finance lease: exceptional items
	362		Lessor under long funding finance lease making termination payment
	363		Lessor under long funding operating lease: periodic deduction
	364	(1), (5) and (6)	“Starting value”: general
	365	(1)	“Starting value” where plant or machinery originally unqualifying
	366		Long funding operating lease: lessor's additional expenditure
	369		Lessor under long funding operating lease: termination of lease
	379		Lessee under long funding operating lease
	380	(1)	“Starting value” in section 379
	381	(2)	Interpretation of Chapter
	390	(4)	Relevant plant or machinery value where relevant company lessee under long funding lease etc
	402	(4)	“PM” where relevant company lessee under long funding lease etc
	413	(4)	Relevant plant or machinery value where partnership lessee under long funding lease etc
	544	(5)	Meaning of “property profits” and “property financing costs”
	758	(3)	Type 1 finance arrangement defined
	761	(3)	Deemed loan relationship if borrower is a company
	762	(3)	Deemed loan relationship if borrower is partnership with corporate member
	763	(3)	Type 2 finance arrangement defined
	766	(3)	Deemed loan relationship
	767	(3)	Type 3 finance arrangement defined
	769	(3)	Deemed loan relationship
	865	(2)	Tax deduction not to exceed commercial rent
	866		Long funding finance leases
	872	(2)(b)	Payment under lease
	893	(2)(b)	Meaning of “capital payment”, “relevant capital payment” etc
	Sch 4		Index of defined expressions