HM Revenue & Customs

Leasing: Tax response to accounting changes

Summary of Responses
6 July 2018

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1. Executive Summary

1.1 This document contains:

- A summary of responses to the consultation “Leasing: Tax responses to accounting changes” which concerned changes to be made to the legislation for the leasing of plant and machinery, and the treatment of accounting transitional adjustments. The changes are required because of changes in accounting for leases in International Financial Reporting Standard 16 (IFRS 16).

- The government’s proposed changes to the legislation, taking into account the responses received in the consultation.

1.2 The responses to the consultation highlighted several areas where HMRC’s proposed approach would either not preserve the status quo or give rise to unacceptable increases in compliance burden for customers. This document explains why changes were made using examples of the issues identified by respondents.

1.3 The government has decided to make the following changes to the Long Funding Lease regime following the consultation:

- No risks and rewards of ownership test will be introduced. Instead a lessee using IFRS 16 lessee will rely on the lease payments test and useful economic life test to identify a Long Funding Lease (LFL).
- All lessees using IFRS 16 with a LFL will be taxed on the basis that they hold a Long Funding Finance Lease.
- The definition of a short lease will be simplified to leases less than 7 years in length.
- If the Right of Use asset recognised by an IFRS 16 lessee for a LFL is remeasured there will be an adjustment to the deduction claimed by the lessee.
- Any LFL held upon adoption of IFRS 16 will retain its current tax treatment.

1.4 For the purposes of Oil Activities the government has decided that a finance lease held by an IFRS 16 lessee will be identified by the lessee testing whether the lease would have been a finance lease under UK generally accepted accounting practice (UK GAAP).

1.5 The government has decided to repeal section 53 FA 2011 for accounting periods beginning on or after 1 January 2019. Upon adoption of IFRS 16 the government has decided that any transitional adjustment recognised will be spread over the average length of the leases which have given rise to the transitional adjustment. Early adopters of IFRS 16 will be able to spread their transitional adjustment as if they had recognised the transitional adjustment in the period of account commencing on or after 1 January 2019.

1.6 Draft legislation has been published today setting out the changes to the legislation arising from the new accounting standard IFRS 16.

1.7 Legislation is expected to be included in in the next Finance Bill to be effective for accounting periods beginning on or after 1 January 2019.

2. Introduction

2.1 The government recognised that the introduction of the International Accounting Standard (IAS), IFRS 16, would result in the rules for the taxation of plant and machinery leases no longer working as intended for any entity that adopted the new standard. A discussion document "Lease Accounting Changes: Tax response" was published by the government on 9 August 2016 asking whether the changes should lead to a change in the taxation of plant and machinery leases. Respondents to the consultation favoured Option 1 which was preserving the status quo. The status quo was defined as "*Minimal change to the statutory provisions to ensure that the current regime continues to function and deliver the same outcome for tax purposes*."

2.2 Subsequently the government published a consultation document on how plant and machinery leasing legislation should be amended to retain the status quo after the adoption of the new accounting standard which also contained a summary of responses to the discussion document.

2.3 The document was published on 1 December 2017. The document is available on the HMRC website at: http://www.gov.uk/government/consultations/plant-and-machinery-lease-accounting-changes

2.4 The consultation and previous discussion document concerned the impact of the introduction of IFRS 16. The new standard will be mandatory for entities that prepare their accounts under IAS for periods of account beginning on or after 1 January 2019. The current UK GAAP standard is FRS 102. The main change upon adoption of IFRS 16 will be for lessees because it will remove the distinction between operating and finance leases. FRS 102 retains the distinction between operating and finance leases.

2.5 IFRS 16 will replace IAS 17 and it will require all lessees to bring all of their leases on balance sheet, apart from leases which are exempt because of their minimal length or value. Previously a lessee only recognised finance leases on its balance sheet. A finance lease is a lease which has transferred the risks and rewards of ownership of the asset to the lessee. The accounting reflects the substance of the transition which is that the lessee has acquired the asset using finance.

2.6 There will be no substantive changes for a lessor adopting IFRS 16.

2.7 The Long Funding Lease (LFL) regime allows lessees rather than lessors to claim capital allowances on plant and machinery leases where a lease is over a certain length and one of three tests is met. One of those tests is that the lessee recognises a finance lease in its accounts. Furthermore the LFL regime has different rules for whether a lease is a Long Funding Finance Lease (LFFL) or Long Funding Operating Lease (LFOL) depending on how the lease is accounted for by the lessee. Changes are needed to the LFL regime to maintain the status quo for those entities which use IFRS 16 and those using FRS 102.

2.8 Various parts of the tax code require finance leases to be identified by a lessee mainly for the purposes of identifying the finance costs in such leases. Finance leases are identified by identifying those leases accounted for as a finance lease in the accounts of a lessee. The test will no longer work for a lessee using IFRS 16.

2.9 Upon adoption of IFRS 16 an entity has three options as to how the leases are recognised on its balance sheet. Under two of those options it is expected that there will be significant transitional adjustments recognised in equity. Under the change of basis rules the credits or debits would be recognised in the year of transition. The government wants to ensure that the tax result does not influence how entities adopt IFRS 16 and will therefore require entities to spread the transitional adjustments.

2.10 Section 53 FA 2011 currently requires a lessee who has early adopted IFRS 16 to tax any leases as though it was still using IAS 17.

2.11 The consultation asked respondents how the status quo could be maintained for the taxation of leases when there would be one accounting standard, IFRS 16, which required lessees to put all leases, other than exempted leases, on its balance sheet and another standard, FRS 102, which required lessees to only put finance leases on its balance sheet. Respondents were asked for their views on different aspects with regards to the mandatory introduction of IFRS 16.

2.12 The consultation was concluded on 28 February 2018.

2.13 The government is grateful to all those who responded or participated in meetings for taking the time to consider the issues raised in the consultation document. Many respondents chose not to respond to all of the questions and the responses have been measured from the level of responses to each individual question. In addition many respondents chose to raise further points either linked to the introduction of IFRS 16 or the wider rules concerning the taxation of leases.

2.14 We received 18 written responses and held meetings with interested parties to discuss the options outlined.

3. Responses

3.1 The responses in relation to each of the seven questions are summarised here and a list of respondents is included in Annex A.

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

3.2 The question was asked in respect of two proposals which would align the tax treatment of a Long Funding Operating Lease (LFOL) and a Long Funding Finance Lease (LFFL) for an IFRS 16 lessee. Currently section 70B CAA 2001 provides that the capital expenditure for a LFOL is to be determined by the market value of the plant and machinery at the start of the lease or when it is first used. In contrast, section 70C CAA 2001 provides that a LFFL is to be determined using the 'commencement PVMLP' – the "present value (at the start of the lease) of the minimum lease payments". The proposal in the consultation was that the rules for determining the capital expenditure for a LFFL should apply to all Long Funding Leases (LFL), which are either finance leases under FRS 102 or any leases under IFRS 16.

3.3 Section 70D CAA 2001 provides that a lessee under a LFFL will be treated as incurring additional capital expenditure where the lessor incurs additional expenditure and the lease payments increase as a consequence. The corresponding increase in the present value of the minimum lease payments qualifies for capital allowances. A lessee under a LFOL does not get any additional capital expenditure in respect of additional expenditure by the lessor on the leased asset but instead receives relief as a revenue deduction for any increased rentals payable in respect of the additional expenditure.

3.4 Some respondents noted that the proposal would have an impact linked to the application of section 70YA CAA 2001 on a LFOL which could result in a deemed disposal at market value and reacquisition at PVMLP. Several respondents noted that the proposal would result in a reduction in the capital allowances claimed for a lessee using IFRS 16 for a LFOL compared to a lessee using FRS 102 for a LFOL. There could also be a mismatch in that an outright owner of an asset could claim accelerated capital allowances compared to a lessee with a LFOL.

3.5 One concern raised was that it would be difficult for an IFRS 16 lessee to know what expenditure has been incurred by a lessor and that it would be simpler to retain the current rules that allowed a lessee with a LFOL to deduct as a revenue expense any increase in rent arising from additional expenditure incurred by the lessor.

3.6 The government has decided that a lessee using IFRS 16 will tax a LFL using one set of rules. The government considers that it is beneficial for an IFRS 16 lessee to use their accounts to identify increases in capital expenditure and finance costs. Although timing mismatches should be avoided it is inevitable that there will be some differences, such as the accelerated finance charge recognised by an IFRS 16 lessee compared to an FRS 102 lessee with an operating lease. Unless those mismatches distort commercial decisions, and we have not seen evidence that they do, it is preferable to make the changes to reflect the one accounting treatment for a lessee under IFRS 16.

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?

3.7 Section 70I CAA 2001 defines 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. Conditions A, B and C are intended to ensure that the definition of a short lease does not provide a significant tax timing advantage. It was proposed in the consultation that the rules be simplified by removing Conditions A, B and C and providing that a lease is a short lease if its term is 7 years or less.

3.8 All respondents were supportive of the simplification. One respondent raised a concern that removal of Conditions B and C could give rise to leases being structured that give rise to tax-timing advantages.

3.9 Given the overwhelming support for the simplification the government will make the change to help simplify the rules. Although a concern was raised about the removal of certain conditions for leases between 5-7 years it was also discussed that certain leases were not written with a length of between 5-7 years so the change should remove a potential commercial barrier.

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 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?

3.10 Section 70N CAA 2001 provides that the finance lease test is met if the lease is one which falls to be treated as a loan or finance lease in accounts which are prepared under generally accepted accounting principles. It was proposed that the finance lease test would be replaced for an IFRS 16 lessee because of the removal of the distinction between an operating and finance lease. This test was proposed to be based upon the principle under both IFRS 16 for lessors and FRS 102 for lessees and lessors that a lease is a finance lease "if it transfers substantially all the risk and rewards incidental to ownership" of an asset.

3.11 The majority of respondents viewed that a LFL could be identified without the need for a finance lease test. They considered that the lease payments test in section 70O CAA 2001 and the useful economic life test in section 70P CAA 2001 could be relied on to identify all but the most extreme terms of finance leases. Furthermore the proposal to align the capital expenditure and deductions for LFOL and LFFL for an IFRS lessee did not necessitate for an IFRS 16 lessee to draw a distinction between finance leases and operating leases.

3.12 If a finance lease test was introduced the majority of respondents thought that FRS 102 should be used to provide a basis for the wording of the test. However the majority of respondents noted that there may be a difficulty in transposing an accounting principle into tax statute. One respondent summarised the concerns that several other respondents voiced about a standalone finance lease test as "*The test would be subjective and could add a significant compliance burden for lessees who would, for tax purposes only, need to consider whether leases entered into by them would transfer substantially all the risks and rewards of ownership to them, without knowing whether the test would follow the previous accounting interpretation.*"

3.13 The government has carefully considered the views of the respondents and has concluded that an unnecessary complexity would be added to the LFL regime if a standalone finance lease test was introduced in section 70N CAA 2001. An IFRS 16 lessee can instead rely on the lease payments test in section 70O CAA 2001 and the useful economic life test in section 70P CAA 2001. Furthermore the single accounting treatment for a lease under IFRS 16 for a lessee and the same tax treatment for all LFL for an IFRS 16 lessee does not require a distinction to be made between LFFL and LFOL. We have not seen evidence that there are commercial leases which would have been finance leases for a lessee under FRS 102 and which would not meet the two tests in section 70O and 70P CAA 2001.

3.14 A lessee using FRS 102 and all lessors will still be able to rely on their accounts to identify finance leases for the purposes of the LFL regime. This is necessary because of the different tax treatment that will remain where a lease is a LFOL or LFFL because of the retention of the operating and finance lease distinction under FRS 102 and for IFRS 16 lessors.

3.15 It is possible that there may be leases over 7 years which are finance leases for the lessor and which would not meet either of the lease payments test or useful economic life test for an IFRS 16 lessee. In that circumstance neither the lessor nor lessee would be entitled to claim capital allowances. However the government has not seen evidence that such leases are common enough to require the introduction of a standalone finance lease test.

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

3.16 Section 70YA CAA 2001 provides that where accounting standards change and the new standard applies to existing leases, the lease is treated as terminating and a new one begun at the point that the accounting treatment changes. These rules apply to both lessors and lessees.

3.17 The proposal was that section 70YA CAA 2001 would 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 IAS but that it should not apply to lessees accounting for finance leases under the current IAS and moving to IFRS 16.

3.18 All respondents said that the proposal would cause problems that would impact existing leases. Most respondents noted the impact on LFOL where there would be a deemed disposal at market value and reacquisition at PVMLP for the purposes of capital allowances. It was also noted that there was an administrative burden for the lessee to review all LFL upon adoption of IFRS 16. Some respondents viewed the problem as large enough to influence whether companies would adopt IFRS 16. It was noted that the proposal seemed inequitable given that there was no change to the lease terms.

3.19 Of the possible remedies to the problem the majority of respondents proposed that lease treatment should be grandfathered so that LFFL and LFOL would continue to be taxed as before. Other proposals included a spreading of any balancing adjustment that may arise on the disposal and reacquisition of a LFOL, allowing LFL held at transition to move to claiming accounts deduction or by requiring all deemed disposals

to be at PVMLP and reacquisition at PVMLP to avoid any balancing charges or allowances upon adoption of IFRS 16.

3.20 The government is grateful to the respondents for highlighting how the proposed approach would not retain the status quo. A decision has therefore been made to grandfather all leases upon adoption of IFRS 16. This means that any LFL held when section 53 FA 2011 is repealed will continue to be taxed under the same rules as before without any disposal or acquisition.

3.21 All LFFL and LFOL will therefore continue to be taxed using the same rules.

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?

3.22 Sections 377 and 378 CTA 2010 determine the amount of lease rental restriction for a LFFL lessee and sections 379 and 380 CTA 2010 determine the amount of lease rental restriction for a LFOL. The principle of the lease rental restriction is that as part of the rentals are 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 have not been claimed.

3.23 The proposal was that a lessee with a LFOL would begin applying sections 377 and 378 CTA 2010 to calculate the lease rental restriction. This would apply to LFOL held for accounting periods beginning on or after 1 January 2019 where IFRS 16 has been adopted.

3.24 Some respondents were content with the proposal as long as it was clear that it would only apply to LFOL that were not grandfathered. Several respondents raised a concern that the change may result in IFRS 16 lessees with a LFL not being able to claim the full deduction of their rentals. It was explained that in certain circumstances the asset recognised by an IFRS 16 lessee, a Right of Use asset, may change without additional expenditure being incurred by a lessor. An example would be a lease with variable payment terms linked to an index. Any movement in the index could lead to the right of use asset being remeasured. The current proposals would however not lead to the lessee being able to claim additional capital allowances nor deductions.

3.25 The government's revised approach of treating a lessees LFL under IFRS 16 entered into for periods beginning on or after 1 January 2019 as LFFL will achieve the same result as the proposal. It will not apply to LFOL that have been grandfathered.

3.26 Under IFRS 16 it is expected that there will be instances where the lease liability and right of use asset will be remeasured in circumstances where no further capital expenditure has been incurred by the lessor. In such circumstances the lessee of a LFL cannot claim additional capital allowance expenditure nor additional revenue expenditure. Legislation has therefore been drafted which will adjust the deduction on a LFL under IFRS 16 where the right of use asset either increases or decreases in circumstances where the lessor has not incurred any additional expenditure. If the legislation was not drafted there was a risk that there would be certain commercial leases where the lessee could not claim full deductions commensurate to the rental payments over the life of the lease.

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

3.27 Section 288 CTA 2010 disallows from the North Sea Oil ring fence corporation tax computation certain amounts payable in respect of a lease which is a part of a sale and leaseback arrangement. Section 331 CTA 2010 includes similar amounts to be left out of account in calculating ring fence profits for the purposes of the supplementary charge in respect of ring fence trades.

3.28 The items disallowed by section 288 CTA 2010 and included by section 331 CTA 2010 are the finance charge in respect of a finance lease and the amount treated as deductible by virtue of section 379 CTA 2010 in respect of a LFOL. The proposal was that the new finance lease test in section 70N CAA 2001 would be used to identify finance leases for users of IFRS 16.

3.29 Respondents supported the approach that would result in the same finance costs being identified whether the lease was under FRS 102 or IFRS 16. Several respondents referred back to their comments on a new finance lease and the potential difficulties relying on such a test.

3.30 Given the respondents' concerns about the nature of a standalone finance lease test the government has drafted legislation which relies on an IFRS 16 lessee having to consider whether that lease would have been a finance lease under FRS 102 where either of section 288 CTA 2010 or section 331 CTA 2010 require them to consider whether they have a finance lease. Given that the draft legislation has aligned the definition of all LFL under IFRS 16 as LFFL further amendments have been drafted to capture finance costs on LFFL where the lease would have been an operating lease under FRS 102.

Q7. Are there other issues expected to arise from the repeal of section 53 FA 2011? What is you 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?

3.31 Section 53 FA 2011 was introduced to provide certainty for the taxation of leases but was always intended to be a temporary measure. It applies the same tax treatment to leases regardless of the accounting standard adopted. The proposed repeal of section 53 for accounting periods commencing on or after 1 January 2019 would allow IFRS 16 adopters to not have to keep separate records for tax and accounting for each lease.

3.32 For lessees adopting IFRS 16 who previously classified their existing leases as operating leases, the change to IFRS 16 mid-lease may result in an adjustment to equity, reflecting a difference between the respective values of assets and liabilities brought onto the balance sheet. The adjustment to equity would be brought into account under the change of basis rules.

3.33 It was proposed to mitigate the potential Exchequer impact upon transition to IFRS 16 by requiring all adopters, for tax purposes, to have used the accounting option upon transition of recognising the right of use asset equal to the lease liability.

3.34 Several respondents to the consultation solely responded on this question because their concerns were the treatment of property leases. They and other respondents raised several concerns: the previous consultation had only covered plant and machinery leases, the administrative burden for them to apply HMRC's proposal, the upfront taxation of credits recognised on adoption of IFRS 16, the impact would be increased by the Corporate Interest Restriction proposals and many businesses were still uncertain of the impact of IFRS 16.

3.35 Several respondents raised their concern over the consultation with respect to repealing section 53 FA 2011 on the taxation of property leases. This was linked to the proposed changes being consulted for the impact of IFRS 16 for the Corporate Interest Restriction. The respondents noted that the retail sector, where large property lease portfolios were held with many on long terms, would be impacted by the change. The most popular proposal where a respondent had raised this concern was that section 53 FA 2011 should not be repealed, or not repealed for property leases, until the impact of doing so had been thoroughly assessed or a decision had been made to whether UK GAAP would be aligned with IAS for lessees. It was opined that the uncertainty could impact how groups adopted IFRS 16 and whether they adopted IFRS 16 for all companies within the group.

3.36 The majority of respondents raised a concern that it would be an administrative burden for a business which had not adopted the accounting option to measure the right of use asset equal to the lease liability. They explained that it would require a lessee to keep two records for every lease they held, one for accounting and another for tax. Several respondents noted that they were a lessee for several hundred leases and it was also noted that certain classes of leases had long terms, for example key retail unit leases.

3.37 If section 53 FA 2011 was repealed the preferred option for respondents was to have a fixed spread of the transitional adjustment upon adoption, with a period of 10 years being a common proposal. One respondent noted that plant and machinery leases were commonly shorter than property leases so proposed that a fixed spread could be tailored for particular classes of leases. Some respondents proposed an alternative spreading which would be based upon the average life of leases held.

3.38 Several respondents who had been able to consider the impact of adopting IFRS 16 had a concern that whilst the debit recognised in reserves on transition would be spread there were further credits which would be brought into account which seemingly would not be spread. A specific example was given of a lease incentive provision on transition to IFRS 16 giving rise to a substantial credit. A concern was that the credit would be taxable in the year of transition whereas the debit recognised in equity for the difference between the asset and liabilities recognised would be spread. The respondents who raised this issue recommended that the credits be spread over the same period as the debits recognised on transition.

3.39 The retail sector was identified by several respondents as being particularly impacted by the proposals. This was because a retailer may have a very large number of property leases which would have been operating leases and therefore would give rise to significant transitional adjustments. All of the concerns raised were felt to be particularly acute for a retailer.

3.40 The government has concluded that retaining section 53 FA 2011 beyond the mandatory introduction of IFRS 16 would lead to uncertainty and would require all lessees under IFRS 16 to retain two sets of accounting records for their leases. In addition although respondents raised a concern about the lack of previous consultation

on property leases and that many businesses were still to address the impact of IFRS 16, the responses to the consultation were sufficiently detailed to highlight areas of uncertainty and excessive administrative burden allowing the draft legislation to deal with those issues whilst protecting Exchequer receipts. The draft legislation repeals section 53 FA 2011 for periods of account beginning on or after 1 January 2019.

3.41 A fixed spread was the most popular proposal for spreading the transitional adjustment and that would be the simplest option for businesses. However there are sufficient variations in leases where there would be too many businesses whose lease profile would significantly differ from a single fixed spread. It would also seem unnecessarily complicated for a business to classify their leases and, for example, property leases have a great variance in length, which would not make that proposal feasible.

3.42 The government has decided that businesses will spread any transitional adjustment over the weighted average remaining length of leases at the date of transition which give rise to the transitional adjustment. This will allow businesses who have recognised a transitional adjustment in equity to be able to use the information they collected to calculate the transitional adjustment to do one calculation in the year of transition for the purposes of calculating the spreading. This will avoid the continued need to retain two sets of records for every lease held and will give an equitable result for all adopters of IFRS 16 regardless of which option the business chooses for recognising the right of use asset and lease liability.

3.43 The draft legislation ensures that it is beyond doubt that all transitional adjustments are recognised and spread as one overall figure. For example a lessee may have net debits across their leases on recognition of the right of use asset and lease liability but also a credit for the write back of an onerous lease provision. The legislation requires the net balance of the transitional adjustments be spread.

3.44 Early adopters of IFRS 16 will be able to spread their transitional adjustment as if they had recognised the transitional adjustment in the period of account commencing on or after the 1 January 2019.

Other recommendations and proposals

3.45 Many respondents took the opportunity to raise several other issues related to the mandatory adoption of IFRS 16 for accounts prepared under IAS. These are summarised below:

- One respondent was concerned that if UK GAAP were to become aligned with IFRS 16 there would be an administrative burden for SMEs and that should be borne in mind for any finance lease test introduced now or in the future.
- One respondent noted that the impact of IFRS 16 adoption is far reaching and will impact not just the Corporate Interest Restriction, but also Bank Levy computations and transfer pricing.
- A concern was raised that the introduction of a finance lease test would unduly complicate section 67 CAA 2001 as the lessee will not be able to rely on their accounts to identify whether a Hire Purchase contract was accounted for as a finance lease.

- A request was made by one respondent that where there is a lease rental restriction there should be clarity that it will apply equally to the finance charge as well as the depreciation of the right of use asset.

- One respondent said that there was uncertainty over the taxation of the exchange gains and losses on the IFRS 16 lease asset and liability where it was denominated in a foreign currency.

3.46 The government is grateful for the points raised, which identify the wide ranging implications of the adoption of IFRS 16. The draft legislation includes changes to section 67 CAA 2001 that will require an IFRS16 adopter to only give Hire Purchase treatment to leases which would have been accounted for as finance leases under FRS 102. The government concludes that the other points may merit clarification in future guidance.

3.47 Many respondents also took the opportunity to set out examples where the current rules for the taxation of plant and machinery leases was leading to commercial distortions, such as differences between leasing and buying assets outright, or were causing an undue administrative burden for businesses. These are summarised below:

- Several respondents said that lessors would benefit from being able to include used assets in elections to adopt LFL treatment. Currently the rules required all used assets to be tracked individually.

- A view was provided by several respondents that the legislation concerning the taxation of leased high and low emission cars was not effective.

- One respondent said that the rules concerning short life asset elections in section 84 CAA 2001 are unduly onerous.

3.48 The draft legislation published today does not make any changes as a result of those responses. The Government is grateful to have those issues highlighted and will take the issues raised into account if any future changes are made to the legislation concerning the taxation of plant and machinery leases, especially if it is concluded that the current rules could be simplified without creating any commercial distortion.

4. Next steps

Government response

4.1 The responses demonstrated several areas where our proposals were not desirable for various reasons, such as excessively increasing administrative burden or introducing legislation which would not provide certainty. Those changes have been detailed in the Responses to the consultation.

4.2 Overall the draft legislation seeks to maintain the status quo for the taxation of plant and machinery leases. The government has welcomed the responses identifying where the previous proposed approach would not achieve that.

4.3 In the "Leasing: Tax responses to accounting changes" consultation, the government proposed a spreading of the transitional adjustment that could arise. Responses received demonstrated that there was a simpler way of mitigating Exchequer impact upon transition and reinforced the need for all transitional adjustments to be spread to prevent an adverse tax impact to certain companies upon adoption.

4.4 The government is aware that UK GAAP lease accounting may change in the future and those changes may well require the taxation of plant and machinery leases to be revisited along with a consideration of any tax impact upon adoption of the new standard.

Next steps

4.5 Draft legislation to implement the government's approach has been prepared and is published today along with a Tax Information and Impact Note

4.6 The government invites comments on the draft legislation, to be sent either:

By email to – ian.woodrow@hmrc.gsi.gov.uk

By post to – Ian Woodrow, Room 3/64, 100 Parliament Street, London, SW1A 3BQ

4.7 The government currently expects to include legislation in the next Finance Bill.

4.8 The legislation is to be effective for periods of account beginning on or after 1 January 2019.

Annexe A: List of stakeholders consulted

HMRC is grateful to the following who provided written responses

1. Association of Accounting Technicians (AAT)
2. B&M Retail
3. BP
4. British Property Federation (BPF)
5. British Vehicle Rental and Leasing Association (BVRLA)
6. Debenhams
7. Deloitte LLP
8. Ernst & Young LLP
9. Finance & Leasing Association (FLA)
10. Grant Thornton UK LLP
11. Invigors EMEA LLP
12. KPMG LLP
13. The Law Society
14. M&G Prudential Investments
15. Next
16. PricewaterhouseCoopers LLP
17. Rank Group
18. Royal Institute of Chartered Surveyors (RICS)

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

1. Angel Trains
2. BPF
3. BVRLA
4. Ernst & Young LLP
5. FLA
6. Invigors EMEA LLP
7. KPMG LLP
8. PricewaterhouseCoopers LLP
9. Norton Rose Fulbright LLP