



Adeline Chan
HMRC
Room 3C/06
100 Parliament Street
London SW1A 2BQ

28 February, 2018

Direct Dial: 01494 545706

Email: jay@bvrla.co.uk

Dear Ms Chan

CONSULTATION PAPER ON LEASING - CORPORATE INTEREST RESTRICTION

Thank you for inviting us to comment on the options for legislative changes required to ensure the Corporate Interest Restriction rules in Part 10 Taxation (International and Other Provisions) Act ('TIOPA') 2010 work as intended following the proposed repeal of section 53 Finance Act 2011 and the introduction of the new lease accounting standard IFRS16 with a mandatory implementation date of 1 January 2019.

We have added our views on the options below:

Option 1 – To follow the Accounts

Overall the BVRLA supports Option 1 (follow the accounting treatment) as it is a simplification of the tax system. However, to ensure that any lessees using IFRS are not disadvantaged, i.e. not being able to claim full tax deductions on lease rental payments, we have outlined some suggestions for HMRC to consider.

This option would introduce inconsistency between lessees using IFRS 16 and lessees using FRS 102. For example, ignoring the lease rental restriction point, some lessees under IFRS 16 may face restrictions in the amount of tax deductions they can claim on lease rental payments. Under FRS 102, a lessee would obtain tax relief for all the rental charges vs IFRS 16, an element of lease interest may be restricted (total rentals charges should equal the total depreciation of the right of use asset and lease interest).

Even if a different option is selected by HMRC as a result of consultation responses received, we believe it is important that taxpayers should be able to make an election to follow the accounts. Vehicle lessors will themselves lease property or equipment, and some are part of large international groups. It may not be practical to identify all of the finance cost of operating leases – particularly when calculating the worldwide group's net external finance expense.

Option 2 – Distinguish between operating and finance leases

This would require maintenance of separate records and practical implications should not be underestimated.

As a practical solution, we would propose a modification to option 1: on a case by case basis, to allow lessees the option of considering accounting for as an operating lease under the existing IAS 17 or FRS 102 criteria (which apply a set of tests to identify the nature of a lease). This for example, could mirror HMRC's approach in its consultation on lease taxation.

PUBLIC - British Vehicle Rental and Leasing Association

River Lodge, Badminton Court, Amersham, Bucks HP7 0DD

tel: 01494 434747 fax: 01494 434499 e-mail: info@bvrla.co.uk web: www.bvrla.co.uk

Option 3 – Distinction between funding and non-funding leases

This option not supported by the BVRLA as we believe it would introduce excessive tax burdens for firms.

We hope our comments add value to the consultation and would be happy to expand on any of the points raised.

Yours sincerely

A handwritten signature in black ink that reads 'Jay Parmar'.

Jay Parmar

Director of Policy & Membership

Bona-fides BVRLA, the industry and its members

- Established in 1967, the British Vehicle Rental & Leasing Association (BVRLA) is the UK trade body for companies engaged in vehicle rental and leasing.
- BVRLA membership provides customers with the reassurance that the company they are dealing with adheres to the highest standards of professionalism and fairness.
- The association achieves this by maintaining industry standards and regulatory compliance via its mandatory codes of conduct, inspection programme and conciliation service. To support this work, the BVRLA shares information and promotes best practice through its extensive range of training and events.
- On behalf of its 900+ members, the BVRLA works with governments, public sector agencies, industry associations and key business influencers across a wide range of road transport, environmental, taxation, technology and finance-related issues.
- BVRLA members are responsible for a combined fleet of almost five million cars, vans and trucks, supporting around 317,000 jobs and contributing nearly £25bn to the economy each year.