

## SCHEDULES

### SCHEDULE 14

#### LEASES: CHANGES TO ACCOUNTING STANDARDS ETC

##### PART 1

###### FINANCE LEASES: AMENDMENTS AS A RESULT OF CHANGES TO ACCOUNTING STANDARDS

- 1 (1) Part 2 of CAA 2001 (plant and machinery allowances) is amended as follows.
- (2) In section 67 (plant or machinery treated as owned by person entitled to benefit of contract, etc), in subsection (2B), for the words from “falls (or would fall)” to the end substitute “—
- (a) falls (or would fall) to be treated by that person in accordance with generally accepted accounting practice as a finance lease, or
  - (b) if that person is a lessee under a right-of-use lease, would fall to be treated in that person’s accounts as a finance lease were that person required under generally accepted accounting practice to determine whether the lease falls to be so treated.”
- (3) In section 70E (disposal events and disposal values), in subsection (2D)(a), after “finance charges” insert “, or interest expenses.”
- (4) In section 70YA (changes in accountancy classification of long funding leases)—
- (a) in subsection (1)(b), for “or an operating lease” substitute “, an operating lease or a right-of-use lease”,
  - (b) in subsection (4)—
    - (i) for “or an operating lease” substitute “, an operating lease or a right-of-use lease”, and
    - (ii) for “and (6)” substitute “to (6A)”,
  - (c) in subsection (5)—
    - (i) omit the “and” at the end of paragraph (a), and
    - (ii) after paragraph (b) insert “and
      - (c) the change of classification is not a relevant change of classification.”,
  - (d) in subsection (6)—
    - (i) omit the “and” at the end of paragraph (a), and
    - (ii) after paragraph (b) insert “and
      - (c) the change of classification is not a relevant change of classification.”,
  - (e) after subsection (6) insert—

“(6A) Case 3 is where—

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- (a) immediately before the relevant time, the lease is a right-of-use lease which is a long funding finance lease, and
- (b) at the relevant time, the lease becomes one which—
  - (i) is not a right-of use lease, and
  - (ii) falls (or would fall) to be treated in the relevant accounts in accordance with generally accepted accounting practice as not being a finance lease.”, and
- (f) after subsection (10) insert—

“(11) In this section—

“relevant change of classification” means a change of accountancy classification as a result of the person adopting a different accounting standard or a change to an accounting standard, and

“accounting standard” means any accounting standard issued or recognised by—

- (a) the Accounting Standards Board (or successor body), or
- (b) the International Accounting Standards Board (or successor body).”

(5) In section 70YI (general definitions), in subsection (1)—

(a) for the definition of “long funding finance lease” substitute—

““long funding finance lease” means—

- (a) in relation to any person, a long funding lease that meets the finance lease test by virtue of section 70N(1)(a), or
- (b) in relation to a lessee, a right-of-use lease which is a long funding lease—
  - (i) that meets the lease payments test in section 70O or the useful economic life test in section 70P, but
  - (ii) is not a lease that, before a relevant change of classification, was a long funding operating lease;”, and

(b) at the appropriate places insert—

““relevant change of classification” has the meaning given by section 70YA(11);”;

““right-of-use lease”, in relation to a lessee, means a lease in respect of which, under generally accepted accounting practice—

- (a) a right-of-use asset falls (or would fall) at the commencement date of the lease to be recognised for accounting purposes in the accounts of the lessee, or
- (b) a right-of-use asset would fall to be so recognised but for the lessee granting a sublease of the leased asset,

and, in determining whether a lease falls within paragraph (a) or (b) at any time in an accounting period, it is to be assumed that the accounting policy applied in drawing up the lessee’s accounts for the period also applied at the commencement date of the lease;”.

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*Status: This is the original version (as it was originally enacted).*

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- (6) In section 228J (anti-avoidance: plant or machinery subject to further operating lease), in subsection (7)—
- (a) for paragraph (a) substitute—
    - “(a) the lease—
      - (i) falls, under generally accepted accounting practice, to be treated in that person’s accounts as a finance lease or loan, or
      - (ii) if that person is a lessee under a right-of-use lease, would fall to be treated in that person’s accounts as a finance lease were that person required under generally accepted accounting practice to determine whether the lease falls to be so treated,” and
  - (b) in paragraph (b), for the words from “fall” to the end substitute “—
    - (i) fall, under generally accepted accounting practice, to be treated as a finance lease or loan, or
    - (ii) if that person is a lessee under a right-of-use lease, would fall to be treated in that person’s accounts as a finance lease were that person required under generally accepted accounting practice to determine whether the arrangements fall to be so treated.”
- 2 (1) ITTOIA 2005 is amended as follows.
- (2) In section 148G (lessee under long funding finance lease: limit on deductions), in subsection (2), after “finance charges” insert “, or interest expenses,”.
- (3) After that section insert—

**“148GA Lessee under long funding finance leases: right-of-use leases**

- (1) This section applies if—
- (a) for the whole or part of any period of account, a person carrying on a trade, profession or vocation is the lessee of any plant or machinery under a right-of-use lease that is a long funding finance lease,
  - (b) there is a change in the amounts payable under the lease, and
  - (c) as a result of the change and in accordance with generally accepted accounting practice—
    - (i) a remeasurement of the lease liability is shown in the person’s accounts for the period of account, or
    - (ii) a deduction is shown in those accounts other than as an interest expense under the lease or an amount of depreciation, or an impairment, in respect of the right-of-use asset arising from the lease.
- (2) In calculating the profits of the person’s trade, vocation or profession for the period of account, the amount deducted in respect of amounts payable under the lease (after taking account of any limitation as a result of section 148G) is to be increased or decreased so as to take account of the remeasurement or deduction mentioned in subsection (1)(c).

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- (3) No adjustment is to be made under subsection (2) if the remeasurement or deduction results in the person being treated by section 70D of CAA 2001 (long funding finance lease: additional expenditure: allowances for lessee) as having incurred further capital expenditure on the provision of the plant or machinery.”
- 3 In section 809BZN of ITA 2007 (finance arrangements: exceptions), after subsection (9) insert—
- “(9A) A finance arrangement code does not apply if the arrangement is a right-of-use lease—
- (a) under which the relevant person is a lessee, and
  - (b) which, were that person required under generally accepted accounting practice to determine whether the lease falls to be treated in the accounts of that person as a finance lease or loan, would not fall to be so treated.
- (9B) In subsection (9A) “right-of-use lease” has the same meaning as in Part 2 of CAA 2001 (see section 70YI(1) of that Act).”
- 4 (1) CTA 2010 is amended as follows.
- (2) In section 288 (sale and lease-back)—
- (a) in subsection (5), for sub-paragraph (a) substitute—
    - “(a) falls, in accordance with generally accepted accounting practice, to be treated in the accounts of the lessee—
      - (i) as a finance charge, or
      - (ii) as an interest expense where any such expenditure would fall to be treated in those accounts as a finance charge if the lessee were required under generally accepted accounting practice to determine whether that expenditure should be so treated,
    - (aa) if the lease is a right-of-use lease which is a long funding finance lease, falls, in accordance with generally accepted accounting practice, to be treated in the accounts of the lessee as an interest expense, or”, and
  - (b) in subsection (9), for the definition of “long funding operating lease” substitute—
 

““long funding finance lease”, “long funding operating lease” and “right-of-use lease” have the meanings given in Part 2 of CAA 2001 (see section 70YI(1) of that Act),”.
- (3) In section 331 (meaning of “financing costs” etc)—
- (a) in subsection (3), after paragraph (d) insert—
    - “(da) if the company is the lessee under a right-of-use lease which is a long funding finance lease, any costs falling, in accordance with generally accepted accounting practice, to be treated in the accounts of the company as interest expenses,”,
  - (b) in subsection (4)(a), after “finance charge” insert “, or an interest expense,”,
  - (c) for subsection (6) substitute—

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- “(6) In this section “finance lease” means a lease which—
- (a) under generally accepted accounting practice—
    - (i) falls (or would fall) to be treated, in the accounts of the lessee or a person connected with the lessee, as a finance lease or loan, or
    - (ii) is comprised in arrangements which fall (or would fall) to be so treated, or
  - (b) if the lease is a right-of-use lease—
    - (i) would fall to be treated in those accounts as a finance lease, or
    - (ii) is comprised in arrangements which would fall to be so treated,were the lessee or person connected with the lessee required under generally accepted accounting practice to determine whether the lease falls, or arrangements fall, to be so treated.”, and
  - (d) in subsection (9)—
    - (i) omit the “and” at the end of the definition of “exchange gains” and “exchange losses”, and
    - (ii) after that definition insert—

““lease” means any arrangements which provide for an asset to be leased or otherwise made available by a person to another person (“the lessee”), and  
“long funding finance lease”, “long funding operating lease” and “right-of-use lease” have the meanings given in Part 2 of CAA 2001 (see section 70YI(1) of that Act).”
- (4) In section 377 (lessee under long funding finance lease: limit on deductions), in subsection (3), after “as finance charges” insert “, or interest expenses,”.
- (5) After that section insert—

**“377A Lessee under long funding finance leases: right-of-use leases**

- (1) This section applies if—
- (a) for the whole or part of any period of account, a company is the lessee of any plant or machinery under a right-of-use lease that is a long funding finance lease,
  - (b) there is a change in the amounts payable under the lease, and
  - (c) as a result of the change and in accordance with generally accepted accounting practice—
    - (i) a remeasurement of the lease liability is shown in the person’s accounts for the period of account, or
    - (ii) a deduction is shown in those accounts other than as an interest expense under the lease or an amount of depreciation, or an impairment, in respect of the right-of-use asset arising from the lease.
- (2) In calculating the company’s profits for the period of account, the amount deducted in respect of amounts payable under the lease (after taking account

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*Status: This is the original version (as it was originally enacted).*

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of any limitation as a result of section 377) is to be increased or decreased so as to take account of the remeasurement or deduction mentioned in subsection (1)(c).

- (3) No adjustment is to be made under subsection (2) if the remeasurement or deduction results in the company being treated by section 70D of CAA 2001 (long funding finance lease: additional expenditure: allowances for lessee) as having incurred further capital expenditure on the provision of the plant or machinery.”
- (6) In section 381 (interpretation of Chapter 2 of Part 9), in subsection (2), for the definition of “long funding finance lease” substitute—  
 ““long funding finance lease” means—  
 (a) in relation to any person, a long funding lease that meets the finance lease test as a result of section 70N(1)(a) of that Act, or  
 (b) in relation to a lessee, a right-of-use lease (see section 70YI(1) of that Act) which is a long funding lease—  
 (i) that meets the lease payments test in section 70O of that Act or the useful economic life test in section 70P of that Act, but  
 (ii) is not a lease that, before a relevant change of classification (see section 70YA(11) of that Act), was a long funding operating lease;”.
- (7) In section 437 (interpretation of the sales of lessors Chapters)—  
 (a) for subsection (4) substitute—  
 “(4) “Finance lease” means—  
 (a) in relation to any person, a lease that, in accordance with generally accepted accounting practice, falls (or would fall) to be treated in the accounts of that person as a finance lease or loan, or  
 (b) in relation to a lessee under a right-of-use lease, a lease that would fall to be treated in the accounts of the lessee as a finance lease if the lessee were required under generally accepted accounting practice to determine whether the lease falls to be so treated.”, and  
 (b) in subsection (6), for “and “long funding operating lease”” substitute “, “long funding operating lease” and “right-of-use lease””.
- (8) In section 544 (meaning of “property profits” and “property financing costs”), after subsection (5) insert—  
 “(5A) In subsection (5) “finance lease” means—  
 (a) in relation to any person, a lease that, in accordance with generally accepted accounting practice, falls (or would fall) to be treated in the accounts of that person as a finance lease or loan, or  
 (b) in relation to a lessee under a right-of-use lease, a lease that would fall to be treated in the accounts of the lessee as a finance lease if the lessee were required under generally accepted accounting practice to determine whether the lease falls to be so treated.
- (5B) In subsection (5A)(b) “right-of-use lease” has the meaning given in Part 2 of CAA 2001 (see section 70YI(1) of that Act).”

*Status: This is the original version (as it was originally enacted).*

(9) In section 771 (finance arrangements: exceptions), after subsection (9) insert—

“(9A) A finance arrangement code does not apply if the arrangement is a right-of-use lease—

- (a) under which the relevant person is a lessee, and
- (b) which, were that person required under generally accepted accounting practice to determine whether the lease falls to be treated in the accounts of that person as a finance lease or loan, would not fall to be so treated.

(9B) In subsection (9A) “right-of-use lease” has the meaning given in Part 2 of CAA 2001 (see section 70YI(1) of that Act).”

5 In section 494 of TIOPA 2010 (corporate interest restriction: other interpretation), in subsection (1)—

(a) for the definition of “finance lease” substitute—

““finance lease”, in relation to a company or a worldwide group, a lease which—

- (a) in accordance with generally accepted accounting practice, falls (or would fall) to be treated, in the accounts of the company or the financial statements of the group, as a finance lease or loan, or
- (b) is a right-of-use lease that would fall to be treated in those accounts or financial statements as a finance lease if the company or group were required to determine for accounting purposes whether the lease falls to be so treated;”, and

(b) insert at the appropriate place—

““right-of-use lease” means a lease in respect of which, under generally accepted accounting practice—

- (a) a right-of-use asset falls (or would fall) at the commencement of the lease to be recognised for accounting purposes in the accounts of the lessee, or
- (b) a right-of-use asset would fall to be so recognised but for the lessee granting a sublease of the leased asset,

and, in determining whether a lease falls within paragraph (a) or (b) at any time in an accounting period, it is to be assumed that the accounting policy applied in drawing up the lessee’s accounts for the period also applied at the commencement of the lease;”.

### *Commencement*

6 (1) The amendments made by this Part of this Schedule have effect in relation to periods of account beginning on or after 1 January 2019.

(2) But, for the purposes of Chapter 7 of Part 10 of TIOPA 2010 (corporate interest restriction: group-interest and group-EBITDA), the amendments made by paragraph 5 have effect in relation to periods of account of a worldwide group (within the meaning given by section 480 of that Act) beginning on or after 1 January 2019.