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SCHEDULES

SCHEDULE 14

LEASES: CHANGES TO ACCOUNTING STANDARDS ETC

PART 1

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

- 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—
- “(6) In this section “finance lease” means a lease which—
- (a) under generally accepted accounting practice—

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- (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 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).

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

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- “(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).”

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