# THE FLA'S RESPONSE TO THE TECHNICAL NOTE ON CORPORATION TAX REFORM OF 2 DECEMBER 2004

## Introduction

1. The HM Treasury/Inland Revenue Technical Note of 2 December 2004 asked for comments by 25 February 2005. This is the response of the Finance & Leasing Association (FLA), with particular reference to the proposals on leasing taxation. We also have an interest in the proposals on the taxation of 'expensive' cars.

2. The FLA is the major UK industry body for the asset finance, consumer finance and motor finance sectors. Our full members provide asset finance to business, consumer credit, point of sale, credit card and instalment finance. Our associate members provide services or goods to those industries and support the Association's vision.

3. FLA members achieved £93.3 billion of new business in 2004. Of this £25.0 billion was provided to the business sector and UK public services, and represented over a quarter of all fixed capital investment in the UK in 2004 (excluding real property). (The remaining £68.3 billion was provided to the consumer sector and represented 29.3% of all unsecured lending in the UK.) Included in the above total is £18.3 billion of finance provided to the motor sector. FLA members financed at least 50% of all new car registrations in the UK in 2004. Total outstanding business finance in 2004 was £66 billion, 47 per cent of all outstanding finance provided by FLA Members.

## The proposals on leasing taxation

4. The FLA has had a dialogue on confidential terms about the proposals with the Inland Revenue before publication, as the Technical Note acknowledges. We always took the position during these discussions that we wanted to open this dialogue to our membership more generally and to the lessee community, so we welcome this consultation.

5. In broad terms, we want a tax system that encourages the growth of asset financing generally. As the Chancellor acknowledged in his Pre Budget Report, asset finance is an important source of finance for investment by UK SMEs, and indeed for British business more generally and the UK public services, not least the National Health Service and local government.

6. In that spirit we welcome the move to a more equitable treatment of cross-border leasing implied by these proposals and the willingness to consider rationalising the anti-avoidance regime. Recent exchanges with the Inland Revenue on capital allowances and protected leasing,

on which we will be responding to their latest views, point up the urgent need for reform of the overseas leasing rules.

7. Our major concern is that the leasing proposals could be applied to leases which are not, in economic terms, financing transactions, so as to risk damaging access to asset finance in areas of business which the Government does not wish to target. We have in mind particularly finance for commercial vehicles, heavy goods vehicles, manufacturing assets, rail rolling stock, aircraft and shipping finance. We believe, as we detail below, that the Government's concerns can be met in a much more targeted way. The Government has said repeatedly that it wishes to target a small minority of pure financing transactions and the estimate of reduced leasing business in the associated impact statement reinforces that view. But to achieve that goal significant revision of the scheme is required. As it stands, it proposes a highly complex new form of leasing taxation, throwing a disproportionate burden of administration on lessors and their clients in ways that will distort the provision of business finance.

**Points on leasing taxation on which comments are requested**

8. **Q1 (4.52): Is the proposed definition of a funding lease appropriate? Are there any elements in the proposed definition of a funding lease that might cause difficulties in practice? Would there be different difficulties from the perspective of lessor and lessee? It would be helpful to have examples of existing leases where the difficulty would (or is likely to) have arisen.**

9. All the proposed elements of the definition of a funding lease cause difficulties in one way or another. A much more targeted definition is needed.

10. In the first place, the definition covers all leases "treated as a finance lease under generally accepted accounting practice". In earlier discussions with the Inland Revenue, we argued that the accounting tests should be the only tests for tax purposes. Any additional statutory tests would increase compliance burdens on business. The difficulty with an accounting test is that it introduces an element of subjectivity into the tax system. The opinions of different auditors can be different, for genuine reasons, on whether a particular lease is a finance lease under UK GAAP or IFRS. If there are to be other, statutory tests, we believe that for this reason the accounting test should be dropped and the final regime composed entirely of objectively defined rules that will give certainty to lessors and lessees on the tax treatment of particular leasing transactions.

11. Second the quantitative elements in the definition of a funding lease raise two key difficulties. The limit on the net present value (NPV), at

75% is too restrictive. So is the limit on minimum term, at 50% of economic life.

12. Both limits are low by international standards. In the Netherlands the economic life limit is 85%, the NPV 92.5%; in Germany the economic life limit is 90% with NPV playing a minor role; in Belgium tax follows the accounts. The US use 80% for economic life (in Revenue Procedure 75-21). We believe that in all these regimes the revenue authorities are seeking to tax leasing transactions in ways that reflect the asset risks that lessors are taking. Thus we see no difference of principle or concept between the goals of these tax regimes and the proposals in the Technical Note.

13. It also needs to be borne in mind that the apparent assumption that the two limits are roughly equivalent to one another is not correct. In commercial reality no such relationship exists. In particular the varying economic lives of different assets will produce very different results on the two measures. The following table illustrates this point:

**Table of the proportion of economic life that is represented by rentals meeting certain present value levels of rents.**

| Economic life | 30 | 25 | 20 | 15 | 10 | 7 | 5 | 3 |
|---|---|---|---|---|---|---|---|---|
| **Present value of rents @the implicit lease rate (6%)** | | | | | | | | |
| **75.00%** | 54.72% | 58.33% | 62.08% | 65.56% | 69.17% | 71.43% | 71.67% | **75.00%** |
| **77.50%** | 57.78% | 61.33% | 65.00% | 68.33% | 71.67% | **73.81%** | **75.00%** | 77.78% |
| **80.00%** | 61.11% | 64.67% | 68.33% | 71.67% | **75.00%** | **76.19%** | 78.33% | 80.56% |
| **82.50%** | 64.72% | 68.33% | 71.67% | **75.00%** | 77.50% | 79.76% | 80.00% | 83.33% |
| **85.00%** | 68.61% | **72.00%** | **75.42%** | 78.33% | 80.83% | 82.14% | 83.33% | 86.11% |
| **87.50%** | **72.78%** | **76.00%** | 78.75% | 81.67% | 84.17% | 85.71% | 86.67% | 88.89% |
| **90.00%** | **77.22%** | 80.00% | 82.92% | 85.00% | 87.50% | 88.10% | 88.33% | 91.67% |

Data is based upon monthly rentals computed to generate a 6% pre-tax IRR, over the whole of each of the economic lives - 3yrs to 30 yrs. The table then computes what proportion of the economic life is represented by the Present Value of flat rentals - at a series of PV levels: 75% - 90%

For example - for a 7 year economic life, when the npv of lease rents met an 80% test, this would be represented by flat rents covering 76% of the useful life. An alternative interpretation is to say that an economic life test of 50% will always be more restrictive than the net present value test. Only if we were looking at an economic life test of 75%, would any of the NPV tests between 75% & 90% have any meaning.

14. The Technical Note mentioned as an example of a transaction that would not be caught by the definition an 8-year lease – with residual value – of a large passenger aircraft (chapter 4, annex A example 3 at paragraph A10). Based on the experience of our members, we believe that 8 year operating leases for commercial aircraft could well, not

uncommonly, fail the NPV test, particularly in times of higher real interest rates than currently exist. Terms of 8 to 12 years are by no means uncommon. Our analysis indicates that it would be very unlikely that a 10 or 12 year operating lease of an aircraft would pass the proposed lease payment test (and, as mentioned, it would not be uncommon for 8 year leases to fail the test); for such transactions to be regarded as "essentially financing transactions" does not seem justifiable. Similar problems will also arise with similar termed operating leases of ships and rolling stock.

15. For example, consider a 10 year operating lease of a new wide-bodied aircraft (such as a Boeing 777). The residual value at year 10 is obviously unpredictable but, based on assumed inflation averaging 2.5% per annum, an appraiser today might predict a residual value of around 55% of original cost in average market conditions and around 45% of cost in soft market conditions. An operating lessor might be willing to write the 10 year operating lease assuming a residual value at (or close to) the soft market value (i.e. 45% of cost), but would be extremely unlikely to take more residual value risk than this. We also assume long-term interest rates of 6% per annum, that the operating lessor will make a 2% per-annum return at the assumed RV level of 45% of original cost and that transaction costs of 2% of cost are incurred. The resulting annual rents would be approximately 12% of cost of the aircraft.

16. In this example, the NPV of the lease payments would be 81% of cost (if the implicit rate is calculated using 45% as the assumed residual value) or 77% (if the implicit rate is calculated using 55% as the assumed residual value) - and either way the lease would fail the lease payments test.

17. For longer operating lease terms (say, 10 to 15 years), the NPV of lease payments will be higher. As a result, requiring the NPV of lease payments to be less than 75% of asset cost will effectively mean that the majority of such leases will be classified as long funding leases, particularly in times of higher nominal and real interest rates. It seems completely unreasonable for (say) a 12 year operating lease of an aircraft, a ship or of rolling stock to be regarded as *"essentially a financing transaction"* purely on the basis of this test and notwithstanding that the lessor will be taking very material residual value exposure - e.g. 30% to 50% of original cost, depending upon the asset - at the end of the lease term.

18. As noted above, in times of higher interest rates (both in nominal terms and in real terms), the impact of the 75% lease payment threshold could easily make even relatively short term operating leases (6 to 8 years) become classified as long funding leases, notwithstanding that the term of such leases may be considerably less than 50% of the useful life of the asset.

19. In these examples as elsewhere, it is not justifiable to treat these transactions as essentially financing transactions. The lessor takes significant residual value exposure.

20. Quite apart from the detail of the level of threshold, we believe that some of the problems that the NPV test will produce are caused precisely by the proposal to make it a net present value test. In the US, the guidance on what is a "true lease" given by Revenue Procedure 75-21 requires the expected residual value of the asset, unadjusted for inflation or deflation, at the end of the lease term to be at least 20% of its original cost and that, in effect, the lessor expects to receive at the end of the lease term an amount by way of residual value that is at least 20% of original cost - but this is not expressed in NPV terms. An alternative approach along these lines would be more acceptable.

21. It is common for operating leases to be written for more than 50% of the economic life of the asset. These contracts satisfy the requirements of UK GAAP and IFRS and are written for purely commercial reasons. Again, the lessor is taking significant risks, particularly residual value exposure.

22. In all the circumstances we believe that much more realistic limits would be 90% for NPV (or a lower undiscounted number, which might be simpler to administer for all parties concerned) and 75% for minimum term. These would mean that the two limits are genuinely targeted on pure 'financing transactions' and would not hit genuine operating leasing. It is worth remembering that the current proposals for these limits would have very different effects in times of higher interest rates (both in nominal terms and in real terms). The impact of the 75% lease payment threshold could easily make even relatively short term operating leases (6 to 8 years) become classified as long funding leases, notwithstanding that the term of such leases may be considerably less than 50% of the useful life of the asset.

23. Finally, a further proposed test is " the asset is of such a specialised nature that no other user of the asset could reasonably be expected" (paragraph 4.13). We do not believe that this test adds any significant comfort from a revenue protection standpoint. In that sense, it is otiose. Such transactions would almost certainly fail the NPV and economic life tests. But the specialised nature test is likely to give rise to disputes between tax inspectors and the business community – lessors and their clients – on whether an asset has an alternative use. Judging by US experience of a similar rule there are not likely to be a great number of such disputes, but they are an unnecessary irritant and complication.

**24. Q2 (4.53): What are the advantages and disadvantages of allowing lessee and lessor to take an independent view on whether a lease is a long funding lease?**

25. We believe that the best course of action is to allow independent classification. This allows the lessor and the lessee to take decisions in their own commercial interests. It would not involve disclosure of information to the other party that is not customarily exchanged in the market. The alternative of compelling a common classification would, correspondingly, involve disclosure in ways that do not chime with market practice and would therefore distort the market.

26. We understand that the concern about independent classification is that on occasion both lessor and lessee might be eligible for capital allowances. We believe in practice this would happen rarely, since accounting for the transactions would greatly limit the flexibility of both parties. At least as often there would be transactions in which neither party qualified for allowances. The authorities could remove the concern about double allowances by stipulating that only one party would be eligible for allowances in any particular transaction, with the two parties left to negotiate as to who might appropriately claim the allowances. Some kind of election procedure would be needed. For fairness' sake there should be allowances for the lessor where no one would otherwise qualify e.g. the lessee has an operating lease but the lessor has a finance lease due to RV support.

**27. Q3 (4.54): Would the proposed definition of long funding leases, including the length of leases covered, fulfil its purpose of excluding leases where the tax treatment had no significant effect on the choice of method of finance?**

28. This definition is the third way in which the proposals risk damaging access to finance for transactions that are well outside the target group of 'financing transactions'.

29. The Technical Note claims that the definition of a long funding lease would exclude "the vast majority of leases to small and medium-sized enterprises" (paragraph 4.7) and "most leasing of vehicles and office equipment" (paragraph 4.22). In reality a large number of such transactions would be caught, particularly where finance includes a balloon payment for commercial reasons, in no way driven by the tax system. We have in mind, for example, commercial vehicles, heavy goods vehicles, buses and coaches. But that list is by no means exhaustive. Forklift trucks for example, extensively used in the manufacturing, distribution and retail sectors, could also be caught, along with printing presses and machine tools and many other assets.

30. By way of illustrating our concerns, the following examples are pertinent (and others could be given for all the assets listed immediately above):

a) <u>5 and 6 year truck and trailer finance leases with balloon rentals of 25% of asset cost.</u>

These leases are popular as they allow the operator to align closely the repayment profile of the financing with the expected value of the asset through its life within the fleet. The operator is generally confident of meeting the balloon obligations with the proceeds of sale (via agency) on termination.

Fails because the term is greater than 4 years and balloon is greater than 5%

b) 7 to 8 year full payout finance leases for both Bus and Coach.

These types of leases are prevalent for leases into local authority owned bus companies and other large bus groups where the bus company is seeking to match the funding profile as closely as possible to the vehicle's useful economic life. Often the local authority owned companies will be restricted from using other forms of financing such as Hire Purchase.

**Fails because it is a finance lease and the term is greater than 6 years.**

c) 7 year operating leases for buses operating within Greater London. There is a demand for such leases because Transport for London is offering 7-year contracts to bus operators. The operators are understandably keen not to be exposed to asset risk should the contracts not be renewed and the present value of the unguaranteed residual risk on these leases is typically 15% of asset cost at inception.

**Fails because PV of rentals is greater than 75% and term is greater than 6 years.**

d) 7 year operating leases for coaches

Similarly 7 year operating contracts are typically awarded by the major national coach operators on some of their routes where they are either unable or unwilling to take on additional vehicles to operate the routes themselves. The subcontractor will naturally favour a 7 year operating lease to protect against non renewal of the operating contract. Again the present value of unguaranteed residuals is in the region of 15%.

**Fails because PV of rentals is greater than 75% and term is greater than 6 years.**

31. In the circumstances it is clear that the suggested period of 4-6 years will catch much more business than the Government wishes. It would do significant damage to leasing business and the investment financed, going well beyond the levels mentioned in the Inland Revenue's Partial Regulatory Impact Assessment. We suggest a minimum of 5-7 years would be much more appropriate.

32. **Q4 (4.55): Would the exemption for shorter leases be easy to apply in practice? Which is the best way to define lease rentals as 'broadly the same' over the life of the lease (Annex A, paragraphs A.4 to A.6)**

33. Defining the lease term should not in itself create significant difficulties in the normal cause of events. We agree with the proposal that the term of the lease should be by reference to the arrangements agreed at inception, especially as this will help avoid any confusion regarding contracts that are subsequently extended, either formally or informally.

34. The definition of 'broadly the same' leased rentals, however, promises much greater difficulties. It is not clear at present why the proposals wish to target this feature of asset finance. There is abundant commercial experience and survey evidence that the impact on cash flow is the main commercial attraction of lease finance. Tax implications comes a long way behind, both for operating and finance leasing. Balloon payments are an important tool for providing customers with flexibility in terms of cash flow impact and it would be damaging, as the examples in the previous section illustrate, to limit that flexibility.

35. To understand the possible commercial impact of this proposal, it is necessary to understand that there is often a sound commercial rationale for varying the repayments on a lease over time, rather than providing equal regular payments. Start-up businesses can benefit, since their payments increase as their revenues improve. Some businesses are highly seasonal. In times of higher inflation it can help to cushion the impact. Lessees may want to pay more as the income from the asset increases, as well as relieve pressure on their own cash flow.

36. So we believe that the Government needs to be much more explicit about what they are trying to target here, before we can offer a view on the least commercially damaging method of defining 'broadly the same' lease repayments.

37. **Q5 (4.56): Would the proposed rule concerning assets leased more than once achieve the objective? Is there a better way?**

38. No lease should be classified as a funding lease simply because it is the last in a series of leases of the same asset. This would be very damaging, for example, in the rail sector. Where an elderly piece of rolling stock is being re-leased in a refranchising scenario and that rolling stock has a limited economic life by virtue of new franchise or safety requirements, the lease parties will probably be constrained by the Department of Transport to agree a lease term which at least matches the operator's franchise term. This may effectively prevent them coming within the proposed regime. Where a lease follows a

series of non-funding leases, it should also be classified as a non-funding lease, in this example as elsewhere.

39. The period for which this approach should be applied to a lease in a series should be consistent with the economic life test, as appears to be the case in other tax jurisdictions. The US has a rule modelled on FASB 13 which could be a useful source, whereby the economic life test is 75%, and when leases are due to begin within the estimated last 25% of the economic life, then the reclassification is ignored.

40. **Q6 (4.57): The Government would welcome comments on the detailed proposals for taxing both lessors and lessees in the new regime, distinguishing between issues that apply where the lease is accounted for as a finance lease or as an operating lease.**

41. We would like to return to this question once the details of the scheme are clearer.

**42. Q7 (4.58): What issues arise on chains of leases that would need to be addressed in the legislation?**

43. Here too it is necessary to understand the commercial rationales, to put the tax proposals in context. Leasing arrangements frequently involve chains of leases for purely commercial reasons. Such chains arise for a variety of reasons, for example:

i) In vendor leasing programmes, the vendor lessor may seek head lease finance, but may not wish there to be any direct arrangement between the head lessor and its own customers, for confidentiality reasons, and so needs to remain in a lease chain. The same reason can apply in other finance markets, such as shipping.

ii) A lease chain may arise where an existing lessee wishes to sublease an asset for a period of time during which it cannot easily use the asset.

iii) A service provider may wish to lease in an asset, which it may then use as part of a wider arrangement to provide services to a customer. If the service arrangement is regarded as an embedded lease, then again there will be a lease chain.

44. Whatever tax treatment of chains of leases is used in the final scheme should be so constructed as to allow these commercial rationales to continue to be applied without hindrance. We would like the same approach on lessors and lessees adopted as we argued for above in our reply to Q2, for consistency's sake.

**45. Q8 (4.59): The Government would welcome views on the approach to changes of use as set out in Annex A.**

46. We would like to return to this question once the details of the scheme are clearer.

**47. Q9 (4.60): Would a "just and reasonable basis" be the best rule for apportioning income and costs when plant was leased with other assets under a single lease?**

48. We would welcome clarification of what the Inland Revenue has in mind by the term 'just and reasonable' with some examples of its proposed application in this context.

49. We also understand that the Inland Revenue is having discussions with the property industry on this point. The FLA would like to be kept in touch with these discussions.

**50. Q10 (4.61): What issues around the commencement of the new rules would need to be addressed? Specific examples would be very helpful.**

51. We have already given the Inland Revenue a paper suggesting how commencement and the transition should be handled.

52. It is crucial that adequate notice of commencement should be given. Finance for ships and aircraft, for example, can take a good while to negotiate. It would be very disruptive to such business to bring the new legislation into force at short notice.

53. It is also important that the transitional arrangements should be based on the principle that expenditure has taken place on the assumption that lease finance will be made available under current legislation, rather than rely on a lease contract being signed. Finance is often committed when ships are built in advance of the lease contract being finalised. It would be unfair to change the tax treatment of such deals midway through the negotiations. A minimum of 6 months notice should be given.

54. There are cases currently where overseas leasing transactions are taxed on unfavourable terms in that gross rents are being taxed, and yet no, or restricted, capital allowances are available. Under those circumstances it should be possible to make an immediate election to be taxed in a debt-based regime.

55. It is worth looking more closely at the issues that could arise in particular kinds of transaction:

**Ship transactions**

56. In a typical case, the lessee group will enter into a contract with a shipyard, which at some point during the build period will be novated to the Lessor. At that point there would also be an agreement to lease.

The leasing would commence on delivery of the vessel. Commencement of the physical construction of the vessel could occur at any time in this process. We take the view that if the shipbuilding contract, novation to the Lessor and agreement to lease have all been entered into before the commencement date, the transaction should be under the old rules even if delivery (or the commencement of physical construction) occurs after it.

**Aircraft**

57. An airline will typically enter into options with the manufacturers, which it will exercise once it determines it will need the aircraft. If the option has been exercised, and a contract to acquire and leaseback has been entered into by the commencement date, again, the old rules should apply. The assignment of the option to a Lessor before the commencement date should also qualify provided some expenditure has been incurred before an agreed cut-off date and an agreement to lease has been entered into.

**Rolling Stock**

58. Rolling stock will normally be acquired under a long-term purchase contract under which deliveries will occur over a lengthy period, and physical construction of individual units may not start until shortly before that unit is due for delivery. Provided the Lessor has entered into an agreement to acquire and an agreement to lease before the commencement date, the old rules should apply.

**PFI contracts**

59. These will often provide for the replacement of tangible property at intervals during the life of the contact, and the acquisition contract for those replacements may not be entered into until they are required. If a Lessor enters into a lease facility before the commencement date under which it will finance the relevant equipment once it exists, the old rules should apply.

**60. Q11 (4.62): Apart from the overseas leasing and allocation rules (paragraphs 4.40 to 4.43), is there any other anti-avoidance legislation that could be amended or removed as a result of this reform?**

61. One of the consequences of the reform of leasing taxation should be to simplify the legislation. In our opinion this should involve the removal of all the legislation that specifically deals with finance leases.

62. Under the current proposals leases will be taxed under three different systems. First, there will be funding leases, secondly there will be non-funding leases that are accounted for as finance leases and thirdly there will be non-funding leases that are accounted for as operating

leases. The second category will only consist of short leases as they will only be non-funding leases by virtue of being de minimis. We consider that it would be simpler if there were only two systems of taxation, for funding leases and non-funding leases respectively. This would permit a significant amount of specific anti-avoidance legislation concerning finance leases to be removed from the statute book since the taxation of leases would no longer depend on their accounting treatment. We believe that all the current anti-avoidance legislation in respect of leasing could be removed in respect of leases which will be classified as long funding leases under the new regime. This could also be done in a way that protects very short-term car and plant hire leasing.

63. The legislation that could be abolished would include sale and finance leaseback, apportionment, and Schedule 12 (the last named for property and equipment leasing, though not films).[1]

64. We also believe that anti-avoidance legislation that could be repealed under the funding lease regime should include the restrictions on leasing by Controlled Foreign Companies and the restrictions on European rail leasing under the long life assets rules.

**The draft legislation**

65. We will comment on the draft legislation once the details of the scheme are clearer. We mention only one point for the time being: the definition of "plant or machinery lease" in section 70L. This refers not only to a lease in terms of the bailment of an asset, but includes any kind of agreement or arrangement under which a person grants a right to use plant or machinery for a period. It seems to us that this could extend the new rules beyond their intended scope. For example, where plant is hired together with an operator this should not fall to be treated as a "plant or machinery lease" under the new rules (as the arrangements are more in the nature of a service contract rather than a lease). Similar issues could arise in the context of PFI / PPP service contracts. Given this, it would be preferable to restrict the definition to cases where the sole or main purpose of the contract or arrangement is the grant of a right of exclusive possession in respect of an asset at a rent for a period. This should ensure that only those arrangements which have as their main purpose the bailment of an asset are caught by the new rules. It would be preferable to ensure that this definition is correct in the drafting of the legislation itself rather than relying on any concessionary treatment to limit the scope and application of the new rules.

**The taxation of 'expensive cars'**

[1] We mean, more precisely, the time apportionment rules in section 220 and the other rules introduced in the Finance (No.2) Act 1997 in relation to sale and finance lease-back; in particular, the rules which are currently in sections 219 to 228 of the Capital Allowances Act 2001; Schedule 12 to the Finance Act 1997

66. The consultation document canvasses options for modernisation of the capital allowances regime for cars and remarks (paragraph 3.44) “In developing possible alternative capital allowance regimes for cars, it would also be necessary to consider the consequences for the rules on the leasing or hiring of cars costing more than £12,000”.

67. We welcome the willingness to consider modernising the regime. It is long over-due. We believe that the emphasis should be on simplifying procedures and reducing the burden of tax administration on business. Pooling, as discussed in the Technical Note, would significantly reduce the administrative burden of the present system. The writing down allowances provided should at least be equivalent to the 25% available in the current general pool for other assets. We do not believe that these capital allowances are an appropriate tool for pursuing the Government’s environmental policies.

68. The discrimination against leasing cars over £12,000 should be abolished. It is a distortion of business investment decisions that lacks any economic or fiscal rationale. We understand that the Inland Revenue has costed this option. We would like to see this costing, so we can compare it with our Members’ own commercial experience.

69. Both subjects – modernising the system and removing the discrimination against leasing – should be dealt with on their own merits and not seen as features which need to be balanced in any way.

Finance & Leasing Association (FLA)
25 February 2005