

SCHEDULES

SCHEDULE 14

LEASES: CHANGES TO ACCOUNTING STANDARDS ETC

PART 3

CHANGES TO ACCOUNTING STANDARDS AND TAX ADJUSTMENTS

Repeal of section 53 of FA 2011

- 11 (1) In FA 2011, omit section 53 (leases and changes to accounting standards).
- (2) The amendment made by this paragraph has effect in relation to periods of account beginning on or after 1 January 2019.
- (3) But, for the purposes of Chapter 7 of Part 10 of TIOPA 2010 (corporate interest restriction: group-interest and group-EBITDA), the amendment made by this paragraph has 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.

Transitional provisions following repeal of section 53 of FA 2011: introductory

- 12 (1) This paragraph and paragraphs 13 to 17 modify the effect of the change of basis provisions in relation to periods of account of a lessee beginning on or after 1 January 2019 if the lease is one—
- (a) in respect of which, under generally accepted accounting practice, a right-of-use asset falls (or would fall) to be recognised for accounting purposes in the accounts of the lessee for any period of account (whether beginning before or on or after that date), and
 - (b) which would not fall to be treated in those accounts as a finance lease if the lessee were required under generally accepted accounting practice to determine whether the lease would fall to be treated in those accounts as a finance lease.
- (2) In this Part of this Schedule, “the change of basis provisions” means—
- (a) Chapter 17 of Part 2 and Chapter 7 of Part 3 of ITTOIA 2005 (adjustment income), and
 - (b) Chapter 14 of Part 3 and sections 261 and 262 of CTA 2009 (adjustment on change of basis).

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Cases where asset first recognised for period of account beginning on or after 1 January 2019

- 13 (1) This paragraph applies if the right-of-use asset falls (or would fall) to be first recognised for accounting purposes in the accounts of the lessee for the first period of account beginning on or after 1 January 2019 (“the first period of account”).

- (2) Any adjustment income or adjustment expense, or any receipt or expense, treated by any of the change of basis provisions as arising in consequence of a change of accounting policy that results in the right-of-use asset being first recognised for accounting purposes is to be treated as arising over a period (“the spreading period”) determined in accordance with the following steps—

Step 1

Find for each lease the amount by which the credits exceed the debits (or vice-versa). For this purpose, the credits and the debits are the amounts which, under generally accepted accounting practice—

- (a) are taken to equity as adjustments in the accounts of the lessee for the first period of account, and
- (b) are in consequence of the change of accounting policy that results in the right-of-use asset being first recognised for accounting purposes in those accounts.

Step 2

Calculate for each lease the percentage (“the relevant percentage”) that—

- (a) the amount found under Step 1 for the lease bears to
- (b) the total of all amounts found under Step 1 (treating such amounts as positive amounts).

Step 3

Find for each lease the period which results from applying the relevant percentage to the term of the lease that remains unexpired as at the date on which the first period of account begins. For this purpose, the term of a lease is to be determined in accordance with generally accepted accounting practice as it applies for the first period of account.

Step 4

Calculate the sum of all periods found under Step 3.

Step 5

The spreading period is the period equal to the sum calculated under Step 4 beginning with the day on which the first period of account begins.

- (3) An amount to be treated as arising in any period falling wholly or partly in the spreading period is to be determined in proportion to the number of days of the period falling within the spreading period.
- (4) This paragraph is subject to paragraphs 15 and 16 (transfers of leases and cessation of activities).

Cases where asset first recognised for an earlier period of account

- 14 (1) This paragraph applies if the right-of-use asset falls (or would fall) to be first recognised for accounting purposes in the accounts of the lessee for a period of account earlier than the first period of account.
- (2) The change of basis provisions and this Part of this Schedule have effect—

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- (a) as if there were a change of accounting policy with respect to the accounts of the lessee for the first period of account, and
 - (b) as if the right-of-use asset falls (or would fall) to be first recognised for accounting purposes in those accounts.
- (3) In this paragraph “the first period of account” has the same meaning as in paragraph 13.

Certain cases where there is a transfer of a lease

- 15 (1) This paragraph applies if—
- (a) before the whole of an amount has been treated by paragraph 13 as arising to the lessee, there is a transfer of a lease or part of a lease from the lessee to another person,
 - (b) the transferee is connected to the lessee,
 - (c) immediately after the transfer, the transferee carries on activities the profits of which are chargeable to income tax or corporation tax, and
 - (d) the transfer is not one where it is reasonable to suppose that the transfer is, or arrangements of which the transfer is part are, designed to avoid tax.
- (2) The amount is to continue to be dealt with in accordance with paragraph 13 but is to be treated as arising to the transferee over so much of the spreading period as falls on or after the date on which the transfer takes place.
- (3) If, following the transfer, it is necessary to apportion between more than one person an amount treated by paragraph 13 or this paragraph as arising, the apportionment is to be made on a just and reasonable basis.
- (4) In this paragraph—
- “connected” is to be read in accordance with sections 993 and 994 of ITA 2007 and sections 1122 and 1123 of CTA 2010, and
 - “the spreading period” has the same meaning as in paragraph 13.

Cases where lessee permanently ceases to carry on activities

- 16 (1) Sub-paragraph (2) applies if—
- (a) before the whole of an amount has been treated by paragraph 13 as arising, the lessee permanently ceases to carry on activities the profits of which are chargeable to income tax or corporation tax, and
 - (b) the whole of the amount so far as not treated by paragraph 13 as arising is not treated by paragraph 15(2) as arising to a transferee.
- (2) The amount so far as not otherwise treated as arising—
- (a) is to be treated as arising to the lessee, and
 - (b) is to be brought into account in calculating the profits of the lessee, immediately before the cessation.

Application of paragraphs 12 to 16 to lease portfolios

- 17 (1) This paragraph applies if a lessee, in accordance with generally accepted accounting practice, prepares accounts by reference to a portfolio of leases having similar characteristics rather than by reference to the individual leases.

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- (2) Paragraphs 12 to 14 and 16 apply to the portfolio (subject to any necessary modifications) in the same way as they apply to a lease.
- (3) If there is a transfer of the portfolio (or an individual lease within the portfolio), paragraph 15 applies to the transfer (subject to any necessary modifications) in the same way as it applies to the transfer of a lease.

Corporate interest restriction: changes of accounting policy

- 18 (1) In section 426 of TIOPA 2010 (changes of accounting policy), in subsection (3), after paragraph (e) insert—
- “(f) paragraphs 12 to 17 of Schedule 14 to FA 2019 (transitional provision following the repeal of section 53 of FA 2011) so far as they have effect in relation to adjustments under Chapter 14 of Part 3 of CTA 2009 or sections 261 and 262 of that Act.”
- (2) The amendment made by this paragraph has effect in relation to periods of account of a worldwide group (within the meaning given by section 480 of TIOPA 2010) beginning on or after 1 January 2019.

Corporate interest restriction: treatment of certain adjustments

- 19 (1) Sub-paragraph (2) applies if—
- (a) an amount is brought into account for corporation tax purposes for a period of account beginning on or after 1 January 2019 as a receipt or expense treated by any of the change of accounting policy provisions as arising to a company which is a lessee,
 - (b) the receipt or expense is treated as arising to the company in consequence of a change of accounting policy relating to a lease in respect of which the company is the lessee,
 - (c) under the old accounting policy, the lease fell to be treated as a finance lease in the accounts of the company, and
 - (d) under the new accounting policy, the lease would fall to be treated as a right-of-use lease in those accounts but for—
 - (i) the short term of the lease, or
 - (ii) the low value of the leased asset.
- (2) For the purposes of Part 10 of TIOPA 2010 (corporate interest restriction)—
- (a) if the amount is brought into account as an expense, “tax-interest expense amount” (see section 382 of that Act) does not include that amount;
 - (b) if the amount is brought into account as a receipt, “tax-interest income amount” (see section 385 of that Act) does not include that amount.
- (3) This paragraph has effect in relation to adjustments to which the financial statements of a worldwide group are treated by section 426 of TIOPA 2010 (changes in accounting policy) as subject in the same way as it has effect in relation to adjustments made under the change of accounting policy provisions by a company and accordingly—
- (a) if the amount is brought into account as an expense, “relevant expense amount” (see section 411(1) of that Act) does not include that amount;
 - (b) if the amount is brought into account as a receipt, “relevant income amount” (see section 411(2) of that Act) does not include that amount.

(4) In this paragraph—

“the change of accounting policy provisions” means Chapter 14 of Part 3 and sections 261 and 262 of CTA 2009 (adjustment on change of basis), and

“right-of-use lease” has the meaning given by section 494 of TIOPA 2010 (other interpretation).