

Association of Accounting Technician's response to Leasing: Tax responses to accounting changes



The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation on Leasing: Tax responses to accounting changes, published by HMRC on 1 December 2017.

AAT wishes to again draw attention to the longer-term impacts of a tax response to IFRS 16 on small and medium-sized businesses having originally done so in response to the HMRC discussion document on “Lease accounting changes: tax response”, published on 9 August 2016.¹

The Consultation states that in the Introduction (1.2) that the accounting standard that is used by the majority of large and medium-sized UK entities, FRS 102, will retain the finance lease/operating lease distinction for both lessors and lessees. In fact, this is not clear beyond the next few years. The Financial Reporting Council (FRC) has deferred, rather than cancelled, its consideration of whether, and if so how, to incorporate elements of IFRS 16 into FRS 102. Changes that could be effective from January 2022 are, therefore, still possible.

Were the FRC to extend IFRS 16 principles to FRS 102, firms of all sizes would face a considerable extra administrative burden in having to continue to classify all leases following rules like those in current accounting rules.

Furthermore, AAT notes that the core rationale for maintaining a distinction between operating and finance leases in the tax rules is diametrically opposed to the IASB's logic for removing the same distinction. This dichotomy of approaches could lead to confusion amongst businesses, as well as future generations of accounting and taxation students.

AAT considers that the Five Principles of Better Regulation are relevant to this matter. To achieve “Consistency”, regulators should seek greater alignment, and work together in a joined-up way. To achieve “Proportionality”, regulators should “think small first”, noting that regulation can have a disproportionate impact on small businesses, which of course account for most tax paying firms.

Although firms implementing IFRS 16 this year will benefit from the “status quo” option, it remains important that HMRC continues to explore other options ready for the possible extension of IFRS 16 principles to FRS 102 from January 2022. AAT suggested one possible approach in its previous response to HMRC's discussion document in 2016 referenced above (establishing a simpler distinction between finance and operating leases in tax law, see paragraph 2.25 of the current consultation).

If such a simplification cannot be achieved, the Five Principles would point to the need for HMRC to make this clear to the FRC, so that the FRC might consider the likely additional burdens of tax regulation on SMEs in its future deliberations.

¹ https://www.aat.org.uk/prod/s3fs-public/assets/Lease_Accounting_Changes_Tax_Response.pdf

About AAT

AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.

As a result, thousands of accounting technicians are routinely involved in preparing the information on leases that is needed for the completion of accounting statements and tax returns. Accounting technicians have a particularly important role in reporting the use of leases by small and medium-sized businesses (SMEs).

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

Further information

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Aleem Islan, AAT Technical Consultation Manager, at:

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