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Tax Benefits of Leasing IT Equipment

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Biography

Tony Crisp qualified as a Chartered Accountant in 1987 and worked in a top ten London Practice before returning to Giess Wallis Crisp LLP (https://www.gwc-accountants.co.uk/) becoming a partner in 1991. He enjoys working with small and medium sized businesses because it gives him the opportunity to get involved at a strategic level. He spends his time talking with clients about their business, resolving issues, attending management meetings and networking with businesses in the local community.

Tony prides himself on ensuring clients have a plain English understanding of Tax Law which helps in achieving good sound tax planning strategies. He manages a varied portfolio of clients across a wide range of business sectors.

Tony blogs for HardSoft Computers at https://www.hardsoftcomputers.co.uk/

Keywords Leasing, Taxation, Computer leasing, Subscription, Tax deductible, Monthly rentals, IT equipment
Paper type Opinion

Abstract

Leasing makes accessing the latest IT equipment simple and affordable, allowing businesses to retain their cash flow for other business needs. At HardSoft Computers (one-stop solutions for B2B computer leasing needs), they are often asked about the tax benefits of computer leasing, in particular whether leasing is tax deductible. To explain more, HardSoft Computers asked Tony Crisp, of Giess Wallis Crisp LLP to give a simple explanation that would help people to understand the intricacies of leasing and tax liabilities.

Introduction – the accounting treatment of leasing your IT

Small and medium sized businesses preparing their financial statements under Financial Reporting Standard 102 are required to treat lease contracts as either Operating Leases or Finance Leases. From 1st January 2019, large companies preparing their financial statements under International Financial Reporting Standard 16 are required to account for lease contracts as Finance leases unless they are under 12 months or are of low value.

The Financial Reporting Standards say that in deciding whether a lease is an operating lease or a finance lease you should consider the substance of the agreement, not necessarily its legal form – in other words, look at who effectively bears the risks and rewards of ownership.

When, substantially, all the risks and rewards incidental to ownership of the equipment are held by the lessee it should be accounted for as a Finance Lease.

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The Financial Reporting Standard provides the following examples of situations that individually or in combination may lead to a lease being classified as a Finance Lease:

- Ownership of the equipment is transferred to lessee at the end of term automatically;
- There is option/right to purchase for a low value (lower than the fair value) at end of term;
- The lease term covers most of the economic life of the equipment even if title is not transferred;
- At the beginning the present value of the minimum lease payments amounts to at least substantially all the fair value of the equipment;
- Is the equipment so specialized that it can only be used by the lessee?
- If cancellation is allowed the losses are borne by the lessee;
- Gains or losses from fluctuation in the residual value of the equipment accrue to the lessee;

- Lessee can continue the lease for a pepper corn rent in the secondary rental period;

- Why a large company might say all new equipment is to be leased not purchased from now on?

What might trigger this is that if a company has already purchased £1 million of equipment in its Financial Year and so claimed the maximum AIA's (Annual Investment Allowance – the capital allowances) for any other purchases it could only claim the annual writing down allowance of 18% of the cost. Leasing then looks much more attractive.

Tax relief on leasing doesn't compare well with tax relief on purchasing if you get the AIA's on the full cost. But once you have used up your AIA's leasing then it looks better. Small/medium sized companies rarely used up their £1 million of AIA's but large companies do.

More information can be found at https://www.icaew.com/technical/financial-reporting/financial-reporting-helpsheets/accounting-for-leases-under-frs-102

The tax treatment of leasing your IT

The monthly rentals under both Finance and Operating lease are fully tax allowable as legal ownership does not transfer the lessee cannot claim any capital allowances.

Further help on the tax implications of leases can be found at https://www.gov.uk/hmrc-internal-manuals/business-leasing-manual

Summary	HP	Operating Lease	Finance Lease
Balance Sheet Asset	Yes	No	Yes
Debt on balance sheet	Yes	No	Yes
Monthly rental tax deductible	Yes	Yes (rental amount)	Yes (interest + depreciation)
Capital Allowances – annual writing down allowance	Yes	No	No
Capital Allowance – annual investment allowance	Yes (if available)	No	No

Reference

For more information about HardSoft's flexible leases, readers can contact HardSoft's sales team on 020 7111 1643 or email sales@hardsoft.co.uk.