

EXPLANATORY MEMORANDUM TO
THE LONG FUNDING LEASES (ELECTIONS) REGULATIONS 2007

2007 No. 304

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.
2. **Description**

The Regulations allow lessors to elect for certain leases of plant or machinery to be taxed under a new regime that was introduced by the Finance Act 2006.
3. **Matters of Special interest to the Select Committee on Statutory Instruments**

None.
4. **Legislative Background**

The Regulations are made under paragraph 16 of Schedule 8 to the Finance Act 2006. They are the first regulations to be made under that power.
5. **Extent**

The instrument applies to all of the United Kingdom.
6. **European Convention on Human Rights**

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.
7. **Policy Background**
 - 7.1 A new regime for the taxation of certain leases of plant or machinery was introduced by Schedule 8 to the Finance Act 2006.
 - 7.2 This new regime reduces the difference in tax treatment of plant or machinery acquired using loan finance and lease finance. In general, it applies to longer leases to which the legislation refers as 'long funding leases'.
 - 7.3 The new regime was the subject of extensive consultation. One of the requests made during the consultation process was that lessors should be allowed to elect into the new regime, so bringing leases into the new regime when they would otherwise not be within its scope.
 - 7.4 The principal benefit of an election is expected to be a reduction in compliance costs for lessors (those who make the plant or machinery available to businesses and others). The Regulations do not affect lessees (the users of the plant or machinery).

- 7.5 The Regulations allow lessors to make an election with retrospective effect, but such an election may not have effect in respect of any time before 1 April 2006. This allows elections to have effect from the date on which the new regime took effect.
- 7.5 The Regulations were described in a Technical Note issued by Her Majesty's Revenue and Customs on 31 March 2006. A draft of the Regulations was published on 1 August 2006 and comments were invited.
- 7.6 Guidance on the primary legislation is currently contained in a Technical Note published on 1 August 2006 (www.hmrc.gov.uk/leasing/). It will be included in a new Leasing Manual to be published in 2007. Draft guidance on the Regulations was also published on 1 August. Updated guidance will be made available when the Regulations come into force.

8. Impact

A Regulatory Impact Assessment on the new regime for taxing certain leases of plant or machinery was published at Budget 2006 and can be found at <http://www.hmrc.gov.uk/ria/ria-leasingreform.pdf>.

9. Contact

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