

20th February 2018

Adeline Chan
Business, Assets and International
HM Revenue & Customs
3C/06, 100 Parliament Street
London
SW1A 2BQ

Dear Ms Chan

ACS Submission - Corporate Interest Restriction: Tax response to accounting changes for leasing

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the HMRC consultation on accounting changes for leasing. ACS represents 33,500 local shops and forecourts across the country including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Londis.

We understand the intention of the Corporate Interest Restriction rules to address companies generating excessive tax relief for interest and other finance costs and welcome this consultation on amending the rules to accommodate IFRS16. The introduction of IFRS16 from January 2019 should avoid the unintended consequences of removing the existing distinction between finance and operating leases, including the removal of Corporate Interest Relief for lease payments by convenience retailers legitimately trading from premises. These retailers are very clearly renting premises and not using this as a form of finance.

ACS' Local Shop Report shows there are almost 50,000 convenience stores in mainland Britain, 26% of which are operated by multiple retail groups, some of which will lease assets for use in their business, have net financing costs greater than £2 million and accrue debt interest. Tax relief to cover the costs of borrowing and debt interest should not be denied on these lease payments.

We are opposed to Option 1, whereby the tax treatment of a property lease would follow the accounting treatment. This would not allow for IFRS16 to recognise debt interest and cause operating leases to be treated differently according to which accounting standards a lessee uses. Option 2 would only allow tax relief for lease rental costs when the landlord uses accounting standards which differentiate between operating and financing leases. This would require retailers to ascertain how landlords account for property income to gain tax relief, placing an unnecessary burden on business.

Option 3 is the most viable approach to amending the Corporate Interest Restriction rules by ignoring the accounting classification of a lease, but further clarity and explanation is needed about the proposed tests to determine eligibility for tax relief. For example, what is defined as the 'risks and rewards' of the property, what is the relevance of lease payments relative to asset value and how can the 'useful economic life' of a retail property be defined and agreed? This approach should be explored in greater detail to ensure full tax relief is granted on operating leases but must be led by justified tests and consider how to simplify burdens on business.

For more information on this submission, please contact Steve Dowling, ACS Public Affairs Executive, via steve.dowling@acs.org.uk or call 01252 515001.

Yours sincerely,

James Lowman
Chief Executive