S&PP
Don't Forget the Financials

Wednesday 10 July 2013

Strategy & Portfolio Planning Community Breakfast Briefing

Don't Forget the Financials - Maximising the return on your assets

CoreNet UK's Strategy and Portfolio Planning (S&PP) Community is one of several special interest groups under the umbrella of CoreNet's UK Chapter. This Breakfast Briefing, held on a beautiful summer's morning in DLA Piper's Noble Street offices, provided a chance to understand the intricacies of tax in relation to leases, coupled with an update on the progress towards a new accounting standard for leases.

James Maddock of DTZ, who chairs the S&PP Community, introduced the session noting how very frightening most people find taxation and government regulation - these speakers he said should go some way to providing some answers.

First speaker, **Mark Burgess** of DLA Piper, set out to explain how very important the understanding, or lack of it, of tax implications can be in the context of leases. And not just stamp duty land tax (SDLT) and VAT but, in addition, the corporation tax treatment of receipts, tax deductibility of payments, and capital allowances issues. Demonstrating this, he took us through the life of a lease. Starting with the grant of a new lease he pointed out the reasons for different tax treatments between payment for works and payment as an inducement, capital allowances, and what might or might not permit the tenant to claim an exemption from tax on monies received. Moving on, he next looked at the tax implications of variations to a lease where SDLT might be charged, even for the smallest changes, and how this might be mitigated. Next up for discussion was the question of assigned leases and whether SDLT would be triggered here too as might also VAT and corporation tax. Finally, he looked at disposals where key taxes to consider include VAT and corporation tax. Summing up he pointed out that while some tax issues will arise immediately, others might not appear until tax returns are filed, hence the crucial importance of adequate documentation from the start.

Next, accounting expert **Shantanu Sonde** from KPMG was requested to describe the current status of the proposed accounting standard for leases. Originally supposed to be in place by 2014, the standard is still winding its way through the draft and comment stages. A second exposure draft is open for comment until 13 September this year and the final standard is now expected later on in 2014 with a likely effective date in 2017. Some key points have emerged. While the original plan had been for one model for all leases, it now seems likely that there will be two separate models - one for most property leases and the second for equipment leases. Irrespective of the model, all lessees (occupiers) will have leases on their balance sheets. The models, from a lessee perspective, would differ in the manner of recognition of the expense in the income statement with a straight line recognition (similar to current operating lease requirements) being in place for most property leases. Short term leases of 12 months or less are likely to be exempted from initial recognition requirements on the balance sheet. Sale and lease-back transactions may no longer be attractive as the leased asset will not be able to escape recognition on the balance sheet. Sub-leases may have an accounting mismatch with the same asset having divergent accounting requirements from the lessee and lessor perspective due to the two lease models. Key impacts and next steps are likely to include improved communication with stakeholders, a need to be concerned about careful negotiations, and possibly a drive towards shorter term leases overall.

Thanking our speakers, James also thanked DLA Piper for their hospitality and the splendid breakfast.

If you would like to find out more about this group and get involved, contact James Maddock at DTZ: james.maddock@dtz.com