Tax and Legal Services
Financial Services Ireland

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Please feel free to contact a member of the PwC leasing tax team if you have any further questions on this or any other issue.

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Leasing Tax Newsalert

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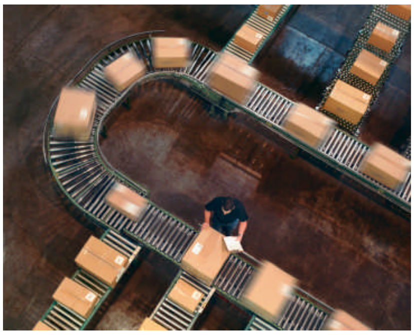
Commission on Taxation report – proposals impacting tax depreciation and the leasing industry

The long-awaited Commission on Taxation Report ("the Report") was published today, 7 September 2009. The Report, which contains more than 250 recommendations on how the Irish tax system might be revised, is the culmination of the work of the 17 member independent commission over a period of 19 months.

The theme of a number of the recommendations in the Report impacting the corporate sector is the simplification of the taxation system. Specifically, there is a proposal that the tax treatment of capital expenditure on assets in use for the purposes of a trade be aligned with the accounting treatment of the assets in question - in other words, a proposal to abolish the system of separate capital allowances or tax depreciation and replace it with a tax deduction for accounting depreciation of assets. This would happen over a transition period of 5 years.



Impact on big ticket assets

Any alignment of the tax deduction for capital expenditure with the accounting treatment of the asset for big ticket lessors (involved in say, aircraft, ship or railcar leasing) would likely have a detrimental effect on existing big ticket leasing activity in Ireland. These lessors currently enjoy an eight year tax depreciation regime and the benefit of this deferral has attracted many global leasing operations to Ireland. The proposed changes could also therefore dramatically impact on Ireland's ability to increase the number of big ticket lessors based here.

We are aware that the Irish government understands the particular importance of the aircraft leasing industry to the Irish economy, including the contribution of the large professional services industry which is employed in providing direct support to the sector. The Minister for Finance acknowledged this when he opened the annual European AirFinance Conference in Dublin earlier this year – "…*I was delighted to learn that Ireland is now…a major centre for aircraft leasing…I was especially happy to learn that [the] sector contributes over €300 million annually in tax to the Irish Exchequer*".

While this proposal does not detail any specific carve outs for particular asset classes or industry sectors, it does include a specific footnote which states "*There are also businesses that currently have an asset base which benefits from a capital allowance regime which is shorter than the economic life of those assets. It is not the intention of our proposals to interfere with these regimes*". We understand from the authors of the Report that this comment was specifically included with the aircraft leasing sector in mind and thus, this is a very positive statement of intent for the sector, further embedding the sector as a key player in the future development of the Irish economy.

Welcome change for small ticket owner/lessors

Small ticket owner/lessors or those who have incurred capital expenditure on items which have a shorter economic life than the tax life of those assets (e.g. software) will welcome such a proposal as it aligns their tax result more closely with the economic and accounting position. Indeed, certain lessors of short-life equipment are already enjoying such simplified tax treatment.

Conclusion

Overall, it seems clear this proposal is a very positive result for the small ticket leasing sector and indeed, it seems that the benefits being delivered to the Irish economy by the aircraft leasing sector in particular are not being ignored. However, aircraft leasing is a global industry and Ireland faces competition from many other jurisdictions which are conscious of the success Ireland has enjoyed in this area to date. It will be important that the industry and its supporting professional services organisations make their voices heard to ensure that the intention of the authors is carried through in any amendments to tax legislation and that any alignment of tax depreciation with accounting depreciation does not specifically apply to this particular industry, or any other big ticket leasing activity.

About the Commission on Taxation

The Commission on Taxation was established by the current government in February 2008 with a remit "to review the structure, efficiency and appropriateness of the Irish tax system". Its work is intended "to help establish the framework within which tax policy would be set for the next decade at least".

PwC Ireland Financial Services Tax Group

PwC is a leading provider of tax services to business in Ireland's financial services (FS) sector. This group provides advice on Irish and international tax issues and tax-related business issues affecting the FS sector. Specialisms within the group include asset finance, leasing, banking, treasury, securitisation, insurance and investment management.

This alert is intended to provide a general guide to the subject matter. Professional advice should always be taken before acting on any information contained in this alert. Please feel free to contact a member of the PwC leasing tax team if you have any further questions on this or any other issue.