Treasury Committee Call for Evidence: Tax Reliefs

FLA Response

Summary

1. Tax reliefs, and in particular capital allowances, can play a significant role in supporting business investment. However, the current regime favours some forms of financing over others. This means that businesses may be incentivised into making choices about finance which may not be the most appropriate choice for their needs. Tax reliefs for business investment should not be dependent on the type of finance used.

2. With considerable uncertainty about their future, many businesses will be reluctant to make large capital purchases and will want to hold onto their limited cash reserves. As a result, businesses may choose to lease or rent their plant and machinery. Some 35% of UK investment is funded by asset finance (hire purchase and leasing)[1].

3. For many businesses, including SMEs, acquiring plant and machinery via short-term hire firms is often the only realistic way for them to access the expensive specialist equipment they need for only the specific time it is needed. For example, 70% of construction plant and machinery is hired in[2]. There are no significant incentives for companies to do this.

4. To provide a significant boost to businesses seeking to make large investments **it is imperative that tax reliefs are independent of the form of finance used, allowing business to benefit from expenditure on leased or rented assets.**

Existing Reliefs

5. Several tax reliefs exist to encourage investment in plant and machinery for example. These include the Annual Investment Allowance, the “super deduction” on plant and machinery, and the Capital Allowances regime more generally including Writing Down Allowances and First Year Allowances.

6. These reliefs typically exclude leased assets from their scope and thus play a minimal role in encouraging investment for industries in which plant is often hired or leased. Reform of tax reliefs could play a crucial role in unlocking business growth in the UK, helping a diverse range of firms.

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[1] Finance and Leasing Association, July 2022
[2] Construction Plant-Hire Association, 2021

7. Businesses which are unprofitable, but which seek to invest to grow their way into profitability cannot access capital allowances. Allowing leasing or rental providers to access capital allowances or similar reliefs and pass on the savings to their customers would resolve this.

Solutions

8. In the short term, we recommend that existing allowances are modified to allow the use of leasing so that they are agnostic as to the type of finance used to acquire an asset. In many cases this would be a simple change to the law to allow this. We have previously engaged with HM Treasury to outline how this could be achieved.

9. In the longer term we recommend an ambitious review of the way the tax system supports business investment and growth should be initiated by the Office of Tax Simplification. This review should cover all aspects of the tax system which affect business investment, from the reliefs available, to the barriers to using different types of finance, with a view to suggesting more radical reforms of the system to drive investment.

About the FLA

The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance providers of leasing and hire purchase.

In 2021, members of the Finance & Leasing Association (FLA) provided £132 billion of new finance to UK businesses and households, £45 billion of which helped consumers and businesses buy new and used cars, including 92% of private new car registrations.

£101 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £31 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software in the UK last year.

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