

DATA SHEET LONG FUNDING LEASE OF PLANT OR MACHINERY

Whilst the concept of a 'long funding lease' was mainly introduced to deny the benefit of Capital Allowances to 'big ticket' equipment lessors, there is potential for property lessors to be negatively affected because the legislation applies to operating leases, as well as finance leases.

Background plant or machinery for a building

The provisions of the Finance Act 2006, Schedules 8 and 9, do not apply to background plant or machinery for a building and the lessor will be entitled to Capital Allowances.

Examples of background plant or machinery

- Heating and air conditioning installations.
- Ceilings which are part of an air conditioning system.
- Hot water installations.
- Electrical installations that provide power to a building, such as high and low voltage switchgear, all sub-mains distribution systems and standby generators.
- Mechanisms, including automatic control systems, for opening and closing doors, windows and vents.
- Escalators and passenger lifts.
- Window cleaning installations.
- Fittings such as fitted cupboards, blinds, curtains and associated mechanical equipment.
- Demountable partitions.
- Protective installations such as, lightning protection, sprinklers and other equipment for containing or fighting fires, fire alarm systems and fire escapes.
- Building management systems.

Plant or machinery deemed to be background plant or machinery

- Lighting installations including all fixed light fittings and emergency lighting systems.
- Telephone, audio-visual and data installations incidental to occupation of the building.
- Computer networking facilities incidental to the occupation of the building.
- Sanitary appliances and other bathroom fittings including, hand driers, counters, partitions, mirrors, shower and locker facilities.

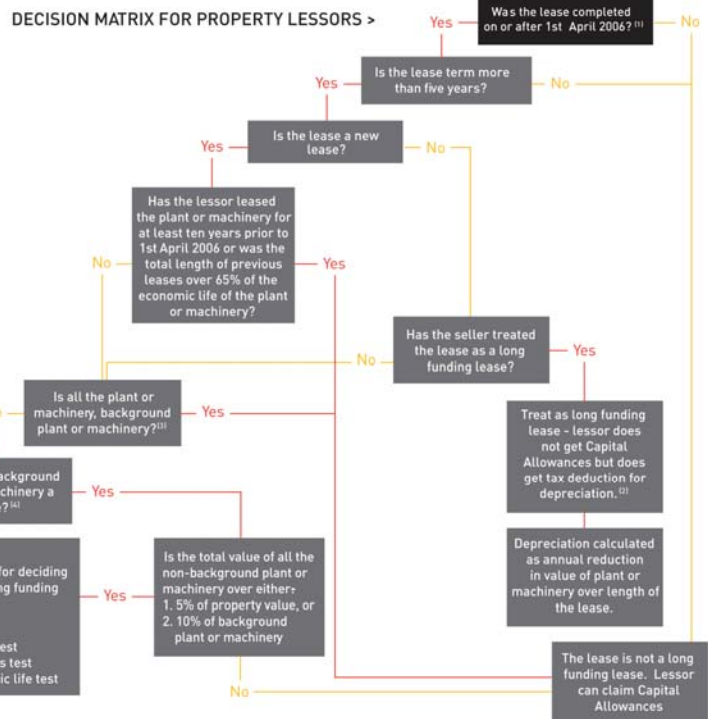
- Kitchen and catering facilities for producing and storing food and drink for the occupants of the building.
- Fixed seating.
- Signs.
- Public address systems.
- Intruder alarm systems and other security equipment including surveillance equipment.

Plant or machinery deemed not to be background plant or machinery

Plant or machinery used for any of the following purposes:

- Storing, moving or displaying goods to be sold in the course of a trade, whether wholesale or retail.
- Manufacturing goods or materials.
- Subjecting goods or materials to a process.

- Storing goods or materials;
 - which are to be used in the manufacture of other goods or materials.
 - which are to be subjected, in the course of a trade, to a process.
 - which, having been manufactured or produced or subjected in the course of a trade to a process, have not yet been delivered to any purchaser or,
 - on their arrival in the United Kingdom from a place outside the United Kingdom.



Notes:

- (1) The rules for long funding leases were introduced by the Finance Act 2006, Schedules 8 and 9. There are transitional rules for leases where the terms were agreed before 21st July 2005.
- (2) The long funding lease rules can apply to one or more items of plant or machinery, but the lessor will still receive Capital Allowances on the background plant or machinery.
- (3) For the definition of background plant or machinery please refer to the definition opposite.
- (4) If the lessor could claim another type of allowance for the plant or machinery (for example, industrial building allowances) then entitlement to the other type of allowance would be unaffected.

Notes:

- (1) The above lists have been reprinted from Statutory Instrument No 303 "The Capital Allowances (Leases of Background Plant or Machinery for a Building) Order 2007".
- (2) Category 2 takes precedent over Category 3 but Category 3 takes precedent over Category 1.
- (3) The exclusion for background plant or machinery is subject to the disqualifications at CAA 2001 s705.

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