Business Taxation for the 21st Century: How taxation of business equipment and vehicle leasing can contribute to providing a fair and sustainable business environment

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In May 2021, the European Commission published the Communication on Business Taxation for the 21st Century, setting out the Commission's long-term vision to provide a fair and sustainable business environment and EU tax system.

Leaseurope, the European federation representing the leasing and rental industries, supports the principle of using the EU tax system to promote sustainability. Changes to the taxation of equipment and vehicle leasing and rental services could make a significant contribution to the objective of providing a fair and sustainable business environment.

Why focus on leasing and rental?

Leasing and rental products offer many sustainability benefits:

- Helping businesses to invest in more modern environmentally friendly assets
- Facilitating the circular economy: Reducing waste by keeping assets in good working condition including upgrading to improve environmental efficiency
- Facilitating the sharing economy: Offering attractive asset sharing arrangements, either through short-term rentals, 'pay per use' lease contracts, or preparing leased assets for reuse by new customers
- Careful and expert recycling of assets at the end of their efficient life

Leasing's unique role with Small and Medium-Sized Enterprises (SMEs)

Policy initiatives aimed at promoting sustainability through tax measures tend to be focused on large companies, either as power suppliers (decarbonising the energy sector) or the most significant power users (supporting industry to innovate).

On its own, this approach risks missing the opportunity to help the 99% of European businesses that are SMEs to contribute to a more sustainable European economy through their investment in new equipment and vehicles.

Leasing and rental of assets is the most popular finance option for supporting sustainable investment by SMEs for the following reasons:

- Allows SMEs to manage their working capital by spreading payments over the life of the asset.
- Often makes it possible for SMEs to finance 100% of the purchase price of an asset
- Makes budgeting exercises easier as lease payments are regular and usually for a fixed amount.

- Gives firms the opportunity to regularly renew their equipment, making sure that they benefit from the latest available technologies.

- Offers alternative sources of finance, independent from bank loans or credit lines, thereby conveying more freedom to the SME.

- Ensures the SME has a stable and certain source of funds that cannot be withdrawn assuming payments are made.

- Allows the SME to use equipment or other assets without having to worry about considerations linked to being an owner such as the disposal of the asset when it is no longer used including the resale value and specialist recycling requirements.

- Enables additional finance for new investment in situations where traditional bank facilities become too expensive, including for new businesses, as lessors have greater security due to the ownership of the assets and their excellent ability to realise asset residual values.

These benefits translate to substantial use of business equipment and vehicle leasing, as evidenced by various surveys including those conducted by Leaseurope:

- New lending of around €300 billion per year in the EU of which we estimate €150 billion is to the 21 million SMEs in the EU. Outstanding lending (the value of existing lease contracts) will be around double these values.

- Leasing and rental services are used by over 40% of all SMEs - that is over 8 million European businesses.

- SMEs that use leasing and rental services invest more than twice as much as other SMEs, which means that most businesses that have any substantial investment needs are likely to lease or rent new vehicles and equipment.

The role of taxation in supporting sustainable business investment

Leaseurope supports taxation policy measures at both national and European levels to promote business investment.

Tax policy makers can promote business investment in new, typically more environmentally friendly assets than the equipment they are replacing, by reducing its after-tax cost using measures such as tax deductibility of expenses and accelerated tax depreciation. These measures make more investment opportunities viable, regardless of how the assets are financed.

Leaseurope recommends:

- Where policy makers are considering taxation measures to support sustainable investment these should work using all types of leasing and rental because this is the finance method most likely to be used by SMEs. If the policy goal is to support investment and sustainability, making this work for leasing and rental is essential.

- The details of any taxation measures to support sustainable investment should consider the many interactions with national accounting rules, law, and the composition of the local financial services industry. This is particularly important for leasing and rental products due to the legal and accounting factors involved in a secured finance arrangements that vary by country. For example, IFRS 16 lease accounting rules are used mostly by public interest entities, so national accounting rules are more likely to be relevant to the taxation of around 99% of European businesses.

- While recognising the policy objective of wishing not to restrict investment using equity finance, policy makers should avoid discouraging the use of debt finance. Doing so would constrain investment, leading to prolonged or greater use of more polluting vehicles and equipment.
- Simplification of tax rules relating to intra-European transfers of leased assets, which today remains unnecessarily cumbersome, making business investment more expensive.

Leaseurope and our member national associations are ready to discuss the details of how this can work most efficiently.