

The Rt Hon Gordon Brown MP
Chancellor of the Exchequer
HM Treasury
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Dear Chancellor,

THE 2006 PRE BUDGET REPORT

I have two points I wish to emphasise in the Finance & Leasing Association's (FLA) representations about your coming Pre Budget Report, on leasing taxation generally and SME taxation and investment in particular.

FLA members provided £27.2 billion of new finance in 2005 to the business sector and UK public services, representing over 30.4% of all fixed capital investment in the UK in 2005 (excluding real property). £18.6 billion of finance was provided to the motor sector. FLA members financed at least 50% of all new car registrations in the UK in 2005. FLA members provided £57.9 billion worth of new finance to the consumer sector in 2005, which represented 25.6% of all unsecured lending in the UK.

The 2006 Finance Act introduced radical, complex and novel changes in leasing taxation. We will have to see how those changes bed down. Our Members were faced with the difficult task of implementing a new regime that had not yet completed its legislative stages, but they have got to grips with that task in a positive way.

If problems emerge for asset finance and its clients that require legislation I hope you will look sympathetically at any requests we make on behalf of our Members. But I hope that the Government itself will not contemplate any further wide-ranging changes in leasing taxation for a period of years. It is disruptive for asset finance, its clients, and for the financing of UK investment.

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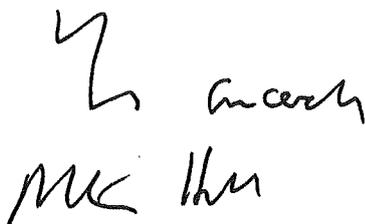
We have been pleased with the constructive dialogue we have had with your officials in HMRC, and continue to have over opting into the new regime. I hope that the latter discussions will have a positive outcome, not least in opening up the IT finance market to asset finance in a more rational manner. But I do not think anyone in the industry would wish to contemplate a further dramatic change on leasing taxation for a considerable time to come.

Second, in the same spirit, I continue to press one targeted measure upon you: the opening up of the SME capital allowances regime to leased assets. The principle has been established by the new regime, which does allow SMEs to claim allowances on assets on long funding leases. But the same treatment should be given to short leases, used far more often by SMEs, to allow lessors to claim them.

I was pleased to see, in papers released by HMRC under Freedom of Information legislation, that they agree that the system is not neutral between bought and leased assets currently. HMRC believes that the impact would be modest, which suggests that they believe the cost would also be modest. We believe the market would produce a more positive outcome. In any event the cost unwinds to zero over a relatively short period, since, almost uniquely among investment incentives; we are discussing a timing difference, albeit one that matters greatly to many SMEs because of the impact on their cash flow. SME finance has fallen steadily from 58% of FLA members' asset finance business in 1999 to 45% in 2005, so there is an issue that needs addressing. The reform would, we believe, provide a strong investment incentive to SMEs which have long needed it to improve their own and the UK economy's productivity performance.

This proposal enjoys very wide support in the business community, including the CBI, the Forum for Private Business and the group of 18 trade associations led by the Engineering Employers Federation.

If you announce the change, we would also like to work with HMRC on a marketing plan. It is clear from responses to the Big Survey organised by the Bank of England in 2004 and the joint survey we and the Forum for Private Business did in 2005 that too many SMEs are unaware of the capital allowances available, damaging their incentive effects.



Martin Hall
Director General