

**GSCCA Circular 16**

**30 November 2020**

**International Financial Reporting Standard (IFRS)16 - Leases**

IFRS16 is effective for accounting periods commencing on or after 1 January 2019, with earlier application permitted. Under this standard the profit and loss account for operating leases will include a depreciation charge in respect of the right of use of the asset, and an interest element.

Depreciation is a non-deductible expense for Guernsey tax purposes. Under the Income Tax (Guernsey) Law 1975, annual allowances (in lieu of depreciation) are only granted where the plant and machinery “belongs” to the person who is in business and so where an operating lease is in place, the annual operating lease expense is deductible in the tax computation of the lessee. This will not change under IFRS16 and it will be necessary to make the appropriate adjustment in the tax computation to add back the depreciation and interest in the accounts and deduct the lease payments.

Revised tax computations will need to be provided if cases have been submitted without the required adjustment.

N Forshaw  
Director of the Revenue Service