
CONTENTS

1 Corporate interest restriction

- Schedule 1 – Corporate interest restriction
 - Part 1 – New Part 10 of TIOPA 2010
 - Part 2 – New Schedule 7A to TIOPA 2010
 - Part 3 – Consequential amendments
 - Part 4 – Commencement and transitional provision

1 Corporate interest restriction

Schedule 1 contains provision about the amounts that may be brought into account for the purposes of corporation tax in respect of interest and other financing costs.

SCHEDULES

SCHEDULE 1

Section 1

CORPORATE INTEREST RESTRICTION

PART 1

NEW PART 10 OF TIOPA 2010

- 1 In TIOPA 2010 insert the following as a new Part 10 (with the existing Part 10 becoming Part 11)–

“PART 10

CORPORATE INTEREST RESTRICTION

CHAPTER 1

INTRODUCTION

372 Overview

- (1) This Part contains provision that –
 - (a) disallows certain amounts that a company would (apart from this Part) be entitled to bring into account for the purposes of corporation tax in respect of interest and other financing costs, and
 - (b) allows certain amounts disallowed under this Part in previous accounting periods to be brought into account in later accounting periods.
- (2) In this Chapter –
 - (a) section 373 defines some key concepts including, in particular, “the total disallowed amount” in relation to a period of account of a worldwide group, and
 - (b) section 374 provides for Schedule 7A to have effect.
- (3) Chapter 2 provides for –
 - (a) the disallowance in certain circumstances of tax-interest expense amounts of companies that are members of a worldwide group, and
 - (b) the carrying forward of disallowed tax-interest expense amounts, and for bringing those amounts into account in certain circumstances in relation to a later period of account of the worldwide group.
- (4) Chapter 3–

- (a) defines “a tax-interest expense amount” and “a tax-interest income amount” of a company for a period of account of a worldwide group, which are amounts that are (or, apart from this Part, would be) brought into account for the purposes of corporation tax,
 - (b) defines “the net tax-interest expense” of a company for a period of account of a worldwide group, which is any excess of the company’s tax-interest expense amounts for the period over its tax-interest income amounts for the period,
 - (c) defines “the net tax-interest income” of a company for a period of account of a worldwide group, which is any excess of the company’s tax-interest income amounts for the period over its tax-interest expense amounts for the period, and
 - (d) defines “aggregate net tax-interest expense” and “aggregate net tax-interest income” of a worldwide group for a period of account of the worldwide group, which are made up of each member of the group’s net tax-interest expense or net tax-interest income for the period.
- (5) Chapter 4 contains provision about the calculation of “the interest capacity” of a worldwide group for a period of account of the group, which is the aggregate of the interest allowance for the period and any unused interest allowance of the group from the previous five years (or, if that aggregate is less than the de minimis amount, the de minimis amount).
- (6) Chapter 5 makes provision about the calculation of “the interest allowance” of a worldwide group for a period of account of the group.
The interest allowance for a period of account is calculated using the fixed-ratio method unless the group elects for the group ratio method to be used for the period.
- (7) Chapter 6 defines concepts used in Chapter 5 including –
the “tax-EBITDA” of a company for a period of account of a worldwide group (which is an amount derived from amounts brought into account for the purposes of corporation tax);
the “aggregate tax-EBITDA” of a worldwide group for a period of account of the group (which is an amount derived from the tax-EBITDA of UK group companies).
- (8) Chapter 7 defines additional concepts used in Chapter 5 including –
“the net group-interest expense”, “the adjusted group-interest expense” and “the qualifying group-interest expense” of a worldwide group for a period of account of the group (which are amounts derived from the financial statements of the worldwide group);
the “group-EBITDA” of the worldwide group for a period of account of the group (which is an amount derived from the financial statements of the worldwide group).
- (9) Chapter 8 contains provision altering the way in which this Part has effect in relation to the provision of public infrastructure assets or the carrying on of certain other related activities.

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- (10) Chapter 9 contains special provision altering the operation of certain provisions of this Part in relation to –
 - (a) particular types of company (for example, companies carrying on oil-related activities, REITs or insurance companies), or
 - (b) particular types of transaction or accounting (for example, long funding operating leases or fair value accounting).
 - (11) Chapter 10 contains rules connected with tax avoidance.
 - (12) Chapter 11 contains the remaining interpretative and supplementary provision, including definitions of –
 - “related party”;
 - “the worldwide group”;
 - “ultimate parent”;
 - “period of account” of the group.

373 Meaning of “subject to interest restrictions”, “the total disallowed amount” etc

- (1) A worldwide group is “subject to interest restrictions” in a period of account of the group if –
 - (a) the aggregate net tax-interest expense of the group for the period (see section 390), exceeds
 - (b) the interest capacity of the group for the period (see section 392).
- (2) “The total disallowed amount” of a worldwide group in a period of account of the group is –
 - (a) if the group is subject to interest restrictions in the period, the amount of the excess mentioned in subsection (1);
 - (b) otherwise, nil.
- (3) “The interest reactivation cap” of a worldwide group in a period of account of the group is (subject to subsection (4)) –
 - (a) the interest allowance of the group for the period (see section 396), less
 - (b) the aggregate net tax-interest expense of the group for the period.
- (4) If the amount determined under subsection (3) is a negative amount, the interest reactivation cap of the worldwide group in the period is nil.
- (5) A worldwide group is “subject to interest reactivations” in a period of account of the group if –
 - (a) the interest reactivation cap of the group in the period is not nil, and
 - (b) at least one company that was a member of the group within the charge to corporation tax at any time during the period has an amount available for reactivation in the return period that is not nil (see paragraph 22 of Schedule 7A).
- (6) This section has effect for the purposes of this Part.

374 Interest restriction returns

- (1) Schedule 7A makes provision about –
 - (a) the preparation and submission of interest restriction returns by reporting companies of worldwide groups, and
 - (b) other related matters such as enquiries and information powers.
- (2) Part 1 of that Schedule includes provision –
 - (a) for the appointment of a reporting company of a worldwide group for a period of account, but
 - (b) for companies (“non-consenting companies”) to elect to be unaffected by allocations of interest restrictions made by the company.
- (3) Part 2 of that Schedule includes provision –
 - (a) for various elections to be made in an interest restriction return that are relevant to the operation of this Part (for example, the group ratio election),
 - (b) entitling the reporting company of a worldwide group to allocate interest restrictions among its members but with a rule that allocates a pro-rata share to a non-consenting company, and
 - (c) entitling the reporting company of a worldwide group to allocate interest reactivations among its members.
- (4) The remaining Parts of that Schedule contain provision about –
 - (a) the keeping and preservation of records (see Part 3),
 - (b) enquiries into interest restriction returns (see Part 4),
 - (c) determinations made by officers of Revenue and Customs in the event of the breach of filing or other obligations (see Part 5),
 - (d) information powers exercisable by members of the group (see Part 6),
 - (e) information powers exercisable by officers of Revenue and Customs (see Part 7), and
 - (f) the amendment of company tax returns to reflect the effect of this Part of this Act and supplementary matters (see Parts 8 and 9).

CHAPTER 2

DISALLOWANCE AND REACTIVATION OF TAX-INTEREST EXPENSE AMOUNTS

375 Disallowance of deductions: full interest restriction return submitted

- (1) This section applies where –
 - (a) an interest restriction return is submitted in relation to a period of account of a worldwide group (“the relevant period of account”),
 - (b) the return complies with the requirements of paragraph 16(2) of Schedule 7A (requirements for full interest restriction return), and

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- (c) the return includes a statement that the group is subject to interest restrictions in the return period.
- (2) A company that is listed on the statement under paragraph 18 of Schedule 7A (statement of allocated interest restrictions) must, in any accounting period for which the statement specifies an allocated disallowance, leave out of account tax-interest expense amounts that, in total, equal that allocated disallowance.
- (3) A non-consenting company in relation to the return may elect that subsection (2) is not to apply in relation to such relevant accounting period of the company as is specified in the election.
- (4) If—
- (a) a non-consenting company makes an election in relation to an accounting period, and
 - (b) paragraph 20 of Schedule 7A allocates to that period a pro-rata share of the total disallowed amount that is not nil,
- the company must leave out of account in that period tax-interest expense amounts that, in total, equal that pro-rata share.
- (5) An election under this section is of no effect unless it is received by an officer of Revenue and Customs before—
- (a) the filing date in relation to the interest restriction return (see paragraph 5(5) of Schedule 7A), or
 - (b) if later, the end of the period of 3 months beginning with the day on which the return was received by an officer of Revenue and Customs.
- (6) See section 377 for provision as to which tax-interest expense amounts are to be left out of account as a result of this section.

376 Disallowance of deductions: no return, or non-compliant return, submitted

- (1) This section applies where—
- (a) a worldwide group is subject to interest restrictions in a period of account of the group (“the relevant period of account”),
 - (b) the filing date in relation to the interest restriction return (see paragraph 5(5) of Schedule 7A) has passed, and
 - (c) condition A, B or C is met.
- (2) Condition A is that no reporting company of the group has been appointed in relation to the relevant period of account.
- (3) Condition B is that—
- (a) a reporting company of the group has been appointed in relation to the relevant period of account, and
 - (b) no interest restriction return has been submitted in relation to the period.
- (4) Condition C is that—
- (a) a reporting company of the group has been appointed in relation to the relevant period of account,

- (b) an interest restriction return has been submitted in relation to the period, and
 - (c) the return does not comply with the requirements of paragraph 16(2) of Schedule 7A (requirements for full interest restriction return).
- (5) A relevant company must, in any accounting period to which paragraph 20 of Schedule 7A allocates a pro-rata share of the total disallowed amount that is not nil, leave out of account tax-interest expense amounts that, in total, equal that pro-rata share.
- (6) See section 377 for provision as to which tax-interest expense amounts are to be left out of account under subsection (5).
- (7) In this section “relevant company” means a company that was a member of the worldwide group at any time during the period of account.

377 Disallowance of deductions: identification of the tax-interest amounts to be left out of account

- (1) This section applies where—
- (a) a company is required to leave tax-interest expense amounts out of account in an accounting period under section 375 or 376, and
 - (b) the total of the tax-interest expense amounts that, apart from that provision, would be brought into account in the accounting period exceeds the total of the tax-interest expense amounts that are required by that provision to be left out of account in that period.

- (2) Tax-interest expense amounts must (subject to the following provisions of this section) be left out of account in the following order.

First, leave out of account tax-interest expense amounts that meet condition A in section 382 and would (if brought into account) be brought into account under Part 5 of CTA 2009 (non-trading debits in respect of loan relationships).

Second, leave out of account tax-interest expense amounts that meet condition B in section 382 and would (if brought into account) be brought into account under Part 5 of CTA 2009 as a result of section 574 of that Act (non-trading debits in respect of derivative contracts).

Third, leave out of account tax-interest expense amounts that meet condition A in section 382 and would (if brought into account) be brought into account under Part 3 of CTA 2009 as a result of section 297 of that Act (debits in respect of loan relationships treated as expenses of trade).

Fourth, leave out of account tax-interest expense amounts that meet condition B in section 382 and would (if brought into account) be brought into account under Part 3 of CTA 2009 as a result of section 573 of that Act (debits in respect of derivative contracts treated as expenses of trade).

Fifth, leave out of account tax-interest expense amounts that meet condition C in section 382 and do not also meet condition A or B in that section (finance leases, debt factoring and service concession arrangements).

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- (3) The company may –
 - (a) elect that subsection (2) is not to apply to the accounting period, or
 - (b) revoke an election previously made.
 - (4) An election under this section must specify the particular tax-interest expense amounts that are to be left out of account.

378 Disallowed tax-interest expense amounts carried forward

- (1) For the purposes of this Part a tax-interest expense amount of a company is “disallowed” in an accounting period if the company is required to leave it out of account in that accounting period under section 375 or 376.
- (2) A tax-interest expense amount of a company that is disallowed in an accounting period is (subject to the remaining provisions of this section) carried forward to subsequent accounting periods.
- (3) Where –
 - (a) a tax-interest expense amount of a company would (apart from this Part) be brought into account in calculating the profits or losses of a trade carried on by the company in an accounting period,
 - (b) the tax-interest expense amount is disallowed in that accounting period, and
 - (c) in a subsequent accounting period (“the later accounting period”) the company ceases to carry on the trade, or the scale of the activities in the trade becomes small or negligible,the tax-interest expense amount is not carried forward to the later accounting period or accounting periods after the later accounting period.
- (4) Where –
 - (a) a tax-interest expense amount of a company would (apart from this Part) be brought into account in calculating the profits or losses of a trade carried on by the company in an accounting period,
 - (b) the tax-interest expense amount is disallowed in that accounting period, and
 - (c) in a subsequent accounting period (“the later accounting period”) the trade is uncommercial and non-statutory,the tax-interest expense amount is not carried forward to the later accounting period or accounting periods after the later accounting period.
- (5) For the purposes of subsection (4), a trade is “uncommercial and non-statutory” in an accounting period if, were the company to have made a loss in the trade in the period, relief for the loss under section 37 of CTA 2010 (relief for trade loss against total profits) would have been unavailable by virtue of section 44 of that Act (trade must be commercial or carried on for statutory functions).
- (6) Where –
 - (a) a tax-interest expense amount of a company would (apart from this Part) be brought into account in calculating the

profits or losses of an investment business carried on by the company in an accounting period,

- (b) the tax-interest expense amount is disallowed in that accounting period, and
- (c) in a subsequent accounting period (“the later accounting period”) the company ceases to carry on the investment business, or the scale of the activities in the investment business becomes small or negligible,

the tax-interest expense amount is not carried forward to the later accounting period or accounting periods after the later accounting period.

- (7) Where a tax-interest expense amount –
 - (a) is disallowed in an accounting period,
 - (b) is carried forward to a subsequent accounting period (“the later accounting period”), and
 - (c) is brought into account in the later accounting period in accordance with section 379,it is not carried forward to accounting periods after the later accounting period.

379 Reactivation of interest

- (1) This section applies where –
 - (a) an interest restriction return is submitted in relation to a period of account of a worldwide group (“the relevant period of account”),
 - (b) the return complies with the requirements of paragraph 16(2) of Schedule 7A (requirements for full interest restriction return), and
 - (c) the return contains a statement that the group is subject to interest reactivations in the return period.
- (2) A company that is listed on the statement under paragraph 21 of Schedule 7A (statement of allocated interest reactivations) must, in the specified accounting period, bring into account tax-interest expense amounts that –
 - (a) are brought forward to the specified accounting period from an earlier accounting period, and
 - (b) in total, equal the allocated reactivation for the return period.
- (3) A tax-interest expense amount is brought into account in the specified accounting period under subsection (2) by being treated as a tax-interest expense amount of the specified accounting period (so that, for example, a tax-interest expense amount that is a relevant loan relationship debit falling within section 383(2)(a)(ii) is brought into account in the specified period as a non-trading debit under Part 5 of CTA 2009).
- (4) See section 380 for provision as to which tax-interest expense amounts are to be brought into account under subsection (2).
- (5) In this section “the specified accounting period” means –
 - (a) the earliest relevant accounting period of the company, or

- (b) where the company became a member of the relevant worldwide group during the relevant period of account, the earliest relevant accounting period of the company in which it was a member of the group.

380 Reactivation of deductions: identification of the tax-interest amounts to be brought into account

- (1) This section applies where –
 - (a) a company is required to bring tax-interest expense amounts into account in an accounting period under section 379, and
 - (b) the total of the tax-interest expense amounts that are brought forward to the accounting period from earlier accounting periods exceeds the total of the tax-interest expense amounts that are required by that provision to be brought into account in that accounting period.

- (2) Tax-interest expense amounts must (subject to the following provisions of this section) be brought into account in the following order.

First, bring into account tax-interest expense amounts that meet condition A in section 382 and are brought into account under Part 5 of CTA 2009 (non-trading debits in respect of loan relationships).

Second, bring into account tax-interest expense amounts that meet condition B in section 382 and are brought into account under Part 5 of CTA 2009 as a result of section 574 of that Act (non-trading debits in respect of derivative contracts).

Third, bring into account tax-interest expense amounts that meet condition A in section 382 and are brought into account under Part 3 of CTA 2009 as a result of section 297 of that Act (debits in respect of loan relationships treated as expenses of trade).

Fourth, bring into account tax-interest expense amounts that meet condition B in section 382 and are brought into account under Part 3 of CTA 2009 as a result of section 573 of that Act (debits in respect of derivative contracts treated as expenses of trade).

Fifth, bring into account tax-interest expense amounts that meet condition C in section 382 and do not also meet condition A or B in that section (finance leases, debt factoring and service concession arrangements).

- (3) The company may –
 - (a) elect that subsection (2) is not to apply to the accounting period, or
 - (b) revoke an election previously made.
- (4) An election under this section must specify the particular tax-interest expense amounts that are to be brought into account.

381 Set-off of disallowances and reactivations in the same accounting period

- (1) This section applies where, as a result of the operation of this Part in relation to different periods of account (whether of the same or a different worldwide group), a company would, apart from this section –

- (a) be required to leave out of account one or more tax-interest expense amounts in an accounting period under section 375 or 376, and
 - (b) be required to bring one or more tax-interest expense amounts into account in that accounting period under section 379.
- (2) In this section –
- (a) “the gross disallowed amount” means the amount, or total of the amounts, mentioned in subsection (1)(a);
 - (b) “the gross reactivated amount” means the amount, or total of the amounts, mentioned in subsection (1)(b).
- (3) Where the gross disallowed amount is equal to the gross reactivated amount, no tax-interest expense amounts are to be left out of account in the accounting period under this Part or brought into account in the accounting period under this Part.
- (4) Where the gross disallowed amount is more than the gross reactivated amount –
- (a) the requirement in section 375 or 376 is to leave out of account tax-interest expense amounts that, in total, equal the gross disallowed amount less the gross reactivated amount, and
 - (b) no amount is to be brought into account in the accounting period under section 379.
- (5) Where the gross reactivated amount is more than the gross disallowed amount –
- (a) no amount to be left out of account in the accounting period under section 375 or 376, and
 - (b) the requirement in section 379 is to bring into account the gross reactivated amount less the gross disallowed amount.

CHAPTER 3

TAX-INTEREST AMOUNTS

Tax-interest expense and income amounts: basic rules

382 The tax-interest expense amounts of a company

- (1) References in this Part to a “tax-interest expense amount” of a company for a period of account of a worldwide group are to any amount that –
- (a) is (or apart from this Part would be) brought into account for the purposes of corporation tax in a relevant accounting period of the company, and
 - (b) meets condition A, B or C.
- (2) Condition A is that the amount is a relevant loan relationship debit (see section 383).
- (3) Condition B is that the amount is a relevant derivative contract debit (see section 384).

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- (4) Condition C is that the amount is in respect of the financing cost implicit in amounts payable under a relevant arrangement or transaction.
 - (5) In subsection (4) “relevant arrangement or transaction” means –
 - (a) a finance lease,
 - (b) debt factoring, or any similar transaction, or
 - (c) a service concession arrangement if and to the extent that the arrangement is accounted for as a financial liability.
 - (6) Subsection (8) applies if an accounting period in which a tax-interest expense amount is (or apart from this Part would be) brought into account for the purposes of corporation tax contains one or more disregarded periods.
 - (7) A “disregarded period” is any period falling within the accounting period –
 - (a) which does not fall within the period of account of the worldwide group, or
 - (b) throughout which the company is not a member of the group.
 - (8) Where this subsection applies, the tax-interest expense amount mentioned in subsection (6) is reduced by such amount as is referable, on a just and reasonable basis, to the disregarded period or periods mentioned in that subsection.
 - (9) An amount may be reduced to nil under subsection (8).

383 Relevant loan relationship debits

- (1) This section applies for the purposes of section 382.
- (2) An amount is a “relevant loan relationship debit” if –
 - (a) it is a debit that is (or apart from this Part would be) brought into account for the purposes of corporation tax in respect of a loan relationship under –
 - (i) Part 3 of CTA 2009 as a result of section 297 of that Act (loan relationships for purposes of trade), or
 - (ii) Part 5 of that Act (other loan relationships), and
 - (b) is not an excluded debit.
- (3) A debit is “excluded” for the purposes of subsection (2)(b) if –
 - (a) it is in respect of an exchange loss (within the meaning of Parts 5 and 6 of CTA 2009), or
 - (b) it is in respect of an impairment loss.

384 Relevant derivative contract debits

- (1) This section applies for the purposes of section 382.
- (2) An amount is a “relevant derivative contract debit” if –
 - (a) it is a debit that is (or apart from this Part would be) brought into account for the purposes of corporation tax in respect of a derivative contract under –
 - (i) Part 3 of CTA 2009 as a result of section 573 of that Act (derivative contracts for purposes of trade), or

- (ii) Part 5 of that Act as a result of section 574 of that Act (other derivative contracts),
 - (b) it is not an excluded debit, and
 - (c) the condition in subsection (4) is met.
- (3) A debit is “excluded” for the purposes of subsection (2)(b) if –
 - (a) it is in respect of an exchange loss (within the meaning of Part 7 of CTA 2009),
 - (b) it is in respect of an impairment loss, or
 - (c) it arises in the course of dealing in derivative contracts so far as that activity forms part of the activities of a trade.
- (4) The condition referred to in subsection (2)(c) is that the underlying subject matter of the derivative contract consists only of one or more of the following –
 - (a) interest rates;
 - (b) any index determined by reference to income or retail prices;
 - (c) currency;
 - (d) an asset or liability representing a loan relationship;
 - (e) any other underlying subject matter which is –
 - (i) subordinate in relation to any of the matters mentioned in paragraphs (a) to (d), or
 - (ii) of small value in comparison with the value of the underlying subject matter as a whole.
- (5) For the purposes of this section, whether part of the underlying subject matter of the derivative contract is subordinate or of small value is to be determined by reference to the time when the company enters into or acquires the contract.
- (6) In this section “underlying subject matter” has the same meaning in Part 7 of CTA 2009.

385 The tax-interest income amounts of a company

- (1) References in this Part to a “tax-interest income amount” of a company for a period of account of a worldwide group are to any amount that –
 - (a) is (or apart from this Part would be) brought into account for the purposes of corporation tax in a relevant accounting period of the company, and
 - (b) meets condition A, B, C or D.
- (2) Condition A is that the amount is a relevant loan relationship credit (see section 386).
- (3) Condition B is that the amount is a relevant derivative contract credit (see section 387).
- (4) Condition C is that the amount is in respect of the financing income implicit in amounts receivable under a relevant arrangement or transaction.
- (5) In subsection (4) “relevant arrangement or transaction” means –
 - (a) a finance lease,
 - (b) debt factoring, or any similar transaction, or

- (c) a service concession arrangement if and to the extent that the arrangement is accounted for as a financial asset.
- (6) Condition D is that the amount is in respect of income that –
 - (a) is receivable from another company, and
 - (b) is in consideration of the provision of a guarantee of any borrowing of that other company.
- (7) Subsection (9) applies if an accounting period in which a tax-interest income amount is (or apart from this Part would be) brought into account for the purposes of corporation tax contains one or more disregarded periods.
- (8) A “disregarded period” is any period falling within the accounting period –
 - (a) which does not fall within the period of account of the worldwide group, or
 - (b) throughout which the company is not a member of the group.
- (9) Where this subsection applies, the tax-interest income amount mentioned in subsection (7) is reduced by such amount as is referable, on a just and reasonable basis, to the disregarded period or periods mentioned in that subsection.
- (10) An amount may be reduced to nil under subsection (9).

386 Relevant loan relationship credits

- (1) This section applies for the purposes of section 385.
- (2) An amount is a “relevant loan relationship credit” if –
 - (a) it is a credit that is (or apart from this Part would be) brought into account for the purposes of corporation tax in respect of a loan relationship under –
 - (i) Part 3 of CTA 2009 as a result of section 297 of that Act (loan relationships for purposes of trade), or
 - (ii) Part 5 of that Act (other loan relationships), and
 - (b) it is not an excluded credit.
- (3) A credit is “excluded” for the purposes of subsection (2)(b) if –
 - (a) it is in respect of an exchange gain (within the meaning of Parts 5 and 6 of CTA 2009), or
 - (b) it is in respect of the reversal of an impairment loss.

387 Relevant derivative contract credits

- (1) This section applies for the purposes of section 385.
- (2) An amount is a “relevant derivative contract credit” if –
 - (a) it is a credit that is (or apart from this Part would be) brought into account for the purposes of corporation tax in respect of a derivative contract under –
 - (i) Part 3 of CTA 2009 as a result of section 573 of that Act (derivative contracts for purposes of trade), or
 - (ii) Part 5 of that Act as a result of section 574 of that Act (other derivative contracts),
 - (b) is not an excluded credit, and

- (c) the condition in subsection (4) is met.
- (3) A credit is “excluded” for the purposes of subsection (2)(b) if—
- (a) it is in respect of an exchange gain (within the meaning of Part 7 of CTA 2009),
 - (b) it is in respect of the reversal of an impairment loss, or
 - (c) it arises in the course of dealing in derivative contracts so far as that activity forms part of the activities of a trade.
- (4) The condition referred to in subsection (2)(c) is that the underlying subject matter of the derivative contract consists only of one or more of the following—
- (a) interest rates;
 - (b) any index determined by reference to income or retail prices;
 - (c) currency;
 - (d) an asset or liability representing a loan relationship;
 - (e) any other underlying subject matter which is—
 - (i) subordinate in relation to any of the matters mentioned in paragraphs (a) to (d), or
 - (ii) of small value in comparison with the value of the underlying subject matter as a whole.
- (5) For the purposes of this section, whether part of the underlying subject matter of the derivative contract is subordinate or of small value is to be determined by reference to the time when the company enters into or acquires the contract.
- (6) In this section “underlying subject matter” has the same meaning in Part 7 of CTA 2009.

Double taxation relief

388 Double taxation relief

- (1) This section applies where—
- (a) apart from this section, an amount (“the relevant amount”) would be a tax-interest income amount of a company (“the company”), and
 - (b) the amount of corporation tax chargeable in respect of the relevant amount is reduced under section 18(2) (entitlement to credit for foreign tax reduces UK tax by amount of the credit).
- (2) The relevant amount is not a tax-interest income amount to the extent that it consists of notional untaxed income.
- (3) For this purpose, the amount of the relevant amount that consists of “notional untaxed income” is—

$$\frac{A}{B}$$

where—

- A is the amount of the reduction mentioned in subsection (1)(b);
- B is the rate of corporation tax applicable to the relevant amount.

*Net tax-interest expense***389 The “net tax-interest expense” or “net tax-interest income” of a company**

- (1) A company has “net tax-interest expense” for a period of account of a worldwide group if the total of its tax-interest expense amounts for the period exceeds the total of its tax-interest income amounts for the period.
- (2) The amount of the net tax-interest expense of the company for the period is the amount of the excess.
- (3) A company has “net tax-interest income” for a period of account of a worldwide group if the total of its tax-interest income amounts for the period exceeds the total of its tax-interest expense amounts for the period.
- (4) The amount of the net tax-interest income of the company for the period is the amount of the excess.
- (5) The net tax-interest expense or net tax-interest income of a company for a period of account of a worldwide group is “referable” to an accounting period of the company to the extent that it comprises tax-interest expense amounts or tax-interest income amounts that are (or apart from this Part would be) brought into account in the accounting period.
- (6) This section applies for the purposes of this Part.

390 The worldwide group’s aggregate net tax-interest expense and income

- (1) The “aggregate net tax-interest expense” of a worldwide group for a period of account of the group is (subject to subsection (2)) –
 - (a) the total of the net tax-interest expense for the period of each relevant company that has such an amount, less
 - (b) the total of the net tax-interest income for the period of each relevant company that has such an amount.
- (2) Where the amount determined under subsection (1) is negative, the “aggregate net tax-interest expense” of the group for the period is nil.
- (3) The “aggregate net tax-interest income” of a worldwide group for a period of account of the group is (subject to subsection (4)) –
 - (a) the total of the net tax-interest income for the period of each relevant company that has such an amount, less
 - (b) the total of the net tax-interest expense for the period of each relevant company that has such an amount.
- (4) Where the amount determined under subsection (3) is negative, the “aggregate net tax-interest income” of the group for the period is nil.
- (5) In this section “relevant company” means a company that was a member of the group at any time during the period of account of the group.
- (6) This section applies for the purposes of this Part.

Interpretation

391 Meaning of “impairment loss”

- (1) In this Part “impairment loss” means a loss in respect of the impairment of a financial asset.
- (2) A reference to a debit in respect of an impairment loss does not include a debit that is (or apart from this Part would be) brought into account in an accounting period in which fair value accounting is used.

CHAPTER 4

INTEREST CAPACITY

392 The interest capacity of a worldwide group for a period of account

- (1) For the purposes of this Part the “interest capacity” of a worldwide group for a period of account of the group (“the current period”) is (subject to subsection (2)) –

$$A + B$$

where –

A is the interest allowance of the group for the current period (see Chapter 5);

B is the aggregate of the interest allowances of the group for periods before the current period so far as they are available in the current period (see section 393).

- (2) Where the amount determined under subsection (1) is less than the de minimis amount for the current period, the interest capacity of the worldwide group for the period is the de minimis amount.
- (3) For this purpose “the de minimis amount” for a period of account is –
 - (a) £2 million, or
 - (b) where the period is more than or less than a year, the amount mentioned in paragraph (a) proportionately increased or reduced.

393 Amount of interest allowance for a period that is “available” in a later period

- (1) This section applies for the purposes of this Chapter.
- (2) The amount of an interest allowance of a worldwide group for a period of account (“the originating period”) that is “available” in a later period of account of the group (“the receiving period”) is (subject to subsection (5)) the lower of amounts A and B.
- (3) Amount A is –
 - (a) the amount of the interest allowance for the originating period, less
 - (b) the total of the amount or amounts (if any) of that interest allowance that were used in the originating period, or in any

subsequent period of account of the group before the receiving period (see section 394).

- (4) Amount B is the amount (if any) of the interest allowance for the originating period that is unexpired in the receiving period (see section 395).
- (5) The amount of the interest allowance for the originating period that is “available” in the receiving period is nil if –
 - (a) an abbreviated return election is made in relation to the originating period, the receiving period or any intervening period of account of the group, or
 - (b) an interest restriction return is not submitted in relation to any such period.

394 When interest allowance is “used”

- (1) This section applies for the purposes of this Chapter.
- (2) The amount of the interest allowance of a worldwide group for a period of account of the group (“the originating period”) that is “used” in the originating period is the lower of –
 - (a) the interest allowance for the originating period, and
 - (b) the sum of –
 - (i) the aggregate net tax-interest expense of the group for the originating period;
 - (ii) the total amount of tax-interest expense amounts required to be brought into account in the originating period under section 379 (reactivation of interest) by members of the group.
- (3) The amount of the interest allowance for the originating period that is “used” in a later period of account of the group (“the receiving period”) is the lower of –
 - (a) the interest allowance so far as it is available in the receiving period (see section 393), and
 - (b) the relevant part of the aggregate net tax-interest expense of the group for the receiving period (see subsection (4)).
- (4) In subsection (3)(b) “the relevant part of the aggregate net tax-interest expense of the group for the receiving period” is (subject to subsection (5)) –

$$A - B - C$$

where –

A is the aggregate net tax-interest expense of the group for the receiving period;

B is the interest allowance of the group for the receiving period;

C is the amount of the interest allowance of the group for any period before the originating period that is used in the receiving period.

- (5) Where the amount determined under subsection (4) is negative, “the relevant part of the aggregate net tax-interest expense of the group for the receiving period” is nil.

395 Amount of interest allowance for a period of account that is “unexpired” in later period

- (1) This section contains provision for determining for the purposes of this Chapter the extent to which an interest allowance of a worldwide group for a period of account (“the originating period”) is “unexpired” in a later period of account of the group (“the receiving period”).
- (2) If the receiving period –
 - (a) begins five years or less after the originating period begins, and
 - (b) ends five years or less after the originating period ends,all of the interest allowance for the originating period is unexpired in the receiving period.
- (3) If the receiving period begins more than five years after the originating period ends, none of the interest allowance for the originating period is unexpired in the receiving period.
- (4) Subsection (5) applies if the receiving period –
 - (a) begins more than five years after the originating period begins, and
 - (b) ends five years or less after the originating period ends.
- (5) The amount of the interest allowance for the originating period that is unexpired in the receiving period is –

$$(A - B) \times \frac{X}{Y}$$

where –

A is the interest allowance for the originating period;

B is –

- (a) the aggregate net tax-interest expense of the group for the originating period, or
- (b) if lower, the interest allowance for the originating period;

X is the number of days in the period –

- (a) beginning with the day on which the receiving period begins, and
- (b) ending with the day five years after the day on which the originating period ends;

Y is the number of days in the originating period.

- (6) Subsection (7) applies if the receiving period –
 - (a) begins five years or less after the originating period begins, and
 - (b) ends more than five years after the originating period ends.
- (7) The amount of the interest allowance for the originating period that is unexpired in the receiving period is –

$$(A - B) \times \frac{X}{Z}$$

where –

A is the aggregate net tax-interest expense of the group for the receiving period;

B is –

- (a) the interest allowance of the group for the receiving period, or
- (b) if lower, aggregate net tax-interest expense of the group for the receiving period;

X has the same meaning as in subsection (5);

Z is the number of days in the receiving period.

- (8) Subsection (9) applies if –
 - (a) the receiving period –
 - (i) begins more than five years after the originating period begins, and
 - (ii) ends more than five years after the originating period ends, and
 - (b) subsection (3) does not apply.
- (9) The amount of the interest allowance for the originating period that is unexpired in the receiving period is the lower of the amounts determined under subsections (5) and (7).

CHAPTER 5

INTEREST ALLOWANCE

396 Meaning of “interest allowance”

- (1) For the purposes of this Part the “interest allowance” of a worldwide group for a period of account of the group is (subject to subsection (2)) –
 - (a) where no group ratio election (see paragraph 10 of Schedule 7A) is in force in relation to the period, the amount calculated using the fixed ratio method (see section 397);
 - (b) where such an election is in force in relation to the period, the amount calculated using the group ratio method (see section 398).
- (2) The interest allowance determined under subsection (1) is increased by the amount (if any) of the aggregate net tax-interest income of the group for the period (see section 390(3) and (4)).

397 Interest allowance calculated using fixed ratio method

- (1) The amount mentioned in section 396(1)(a) is the lower of the following amounts –
 - (a) 30% of the aggregate tax-EBITDA of the group for the period;
 - (b) the adjusted net group-interest expense of the group for the period.
- (2) See –
 - section 401 for the meaning of “aggregate tax-EBITDA”;

section 409 for the meaning of “adjusted net group-interest expense”.

398 Interest allowance calculated using group ratio method

- (1) The amount mentioned in section 396(1)(b) is the lower of the following amounts—
- (a) the group ratio percentage of the aggregate tax-EBITDA of the group for the period;
 - (b) the qualifying net group-interest expense of the group for the period.
- (2) “The group ratio percentage” is (subject to subsection (3))—

$$\frac{A}{B} \times 100$$

where—

A is the qualifying net group-interest expense of the group for the period;

B is the group-EBITDA of the group for the period.

- (3) “The group ratio percentage” is 100% where—
- (a) the percentage determined under subsection (2) is negative or higher than 100%, or
 - (b) B in subsection (2) is zero.
- (4) See—
- section 401 for the meaning of “aggregate tax-EBITDA”;
 - section 410 for the meaning of “qualifying net group-interest expense”;
 - section 411 for the meaning of “group-EBITDA”.

399 Effect of group ratio (blended) election

- (1) Where a group ratio (blended) election (see paragraph 11 of Schedule 7A) has effect in relation to a period of account of a worldwide group (“the relevant period of account”), this Chapter applies in relation to the period subject to this section.
- (2) Section 398(2) and (3) (meaning of “group ratio percentage”) do not apply.
- (3) Instead, the group ratio percentage is determined by taking the following steps—
- Step 1*
For each investor in the group, multiply the investor’s applicable percentage by the investor’s share in the group.
- Step 2*
Add together the amounts found under Step 1.
- (4) For the purposes of subsection (3) an investor’s “applicable percentage” is the highest of the following percentages—
- (a) 30%;
 - (b) the percentage determined under section 398(2) and (3);
 - (c) in the case of a related party investor that, throughout the relevant period of account, is a member of a worldwide

group other than that mentioned in subsection (1) (“the investor’s worldwide group”), the group ratio percentage of the investor’s worldwide group for the relevant period of account.

- (5) Subsection (6) applies where financial statements of the investor’s worldwide group are drawn up in respect of one or more periods (“the investor’s periods of account”) that are comprised in or overlap with (but are not coterminous with) the relevant period of account.

- (6) The group ratio percentage of the investor’s worldwide group for the relevant period of account is to be determined for the purposes of subsection (4)(c) by taking the following steps –

Step 1

Find the group ratio percentage of the investors’ worldwide group for each of the investor’s periods of account.

Step 2

Find the proportion of the relevant period of account that coincides with each of the investor’s periods of account.

Step 3

For each of the investor’s periods of account, multiply the group ratio percentage found under Step 1 by the proportion found under Step 2.

Step 4

Add together the amounts found under Step 3.

400 Meaning of “investor”, “related party investor” and investor’s “share”

- (1) An entity is an “investor” in a worldwide group if it has an interest in the ultimate parent of the group that entitles it to a proportion of the profits or losses of the group.
- (2) An investor in a worldwide group is a “related party investor” of the group in relation to a period of account of the group if, throughout the period, it is a related party of the ultimate parent of the group.
- (3) The “share” of an investor in a worldwide group, in relation to a period of account of the group, is the proportion of the profits or losses of the group that arise in the period to which the investor is entitled by virtue of the investor’s interest in the group’s ultimate parent.
- (4) This section has effect for the purposes of this Part.

CHAPTER 6

TAX-EBITDA

401 The aggregate tax-EBITDA of a worldwide group

For the purposes of this Part “the aggregate tax-EBITDA” of a worldwide group for a period of account of the group is –

- (a) the total of the tax-EBITDAs for the period of each company that was a member of the group at any time during the period, or
- (b) where the amount specified in paragraph (a) is negative, nil.

402 The tax-EBITDA of a company

- (1) For the purposes of this Part the “tax-EBITDA” of a company for a period of account of the worldwide group is –
 - (a) where the company has only one relevant accounting period, the company’s adjusted corporation tax earnings for that accounting period;
 - (b) where the company has more than one relevant accounting period, the total of the company’s adjusted corporation tax earnings for each of those accounting periods.
- (2) The company’s “adjusted corporation tax earnings” for an accounting period is the total (which may be negative) of the amounts that meet condition A or B.
- (3) Condition A is that the amount –
 - (a) is brought into account by the company in determining its taxable total profits of the period (within the meaning given by section 4(2) of CTA 2010), and
 - (b) is not an excluded amount for the purposes of this condition (see section 403).
- (4) Condition B is that the amount –
 - (a) is not brought into account as mentioned in subsection (3)(a), but would have been so brought into account if the company had made profits, or more profits, of any description in the period, and
 - (b) is not an excluded amount for the purposes of this condition (see section 403).
- (5) Subsection (7) applies if an amount –
 - (a) is brought into account as mentioned in subsection (3)(a), or
 - (b) is not brought into account as mentioned in subsection (4)(a),in an accounting period which contains one or more disregarded periods.
- (6) A “disregarded period” is any period falling within the accounting period –
 - (a) which does not fall within the period of account of the worldwide group, or
 - (b) throughout which the company is not a member of the group.
- (7) Where this subsection applies, the amount mentioned in subsection (5) is reduced, for the purposes of subsection (2), by such amount (if any) as is referable, on a just and reasonable basis, to the disregarded period or periods mentioned in subsection (5) .
- (8) An amount may be reduced to nil under subsection (8).

403 Amounts not brought into account in determining a company’s tax-EBITDA

- (1) An amount is an excluded amount for the purposes of conditions A and B in section 402 if it is any of the following –
 - (a) a tax-interest expense amount or a tax-interest income amount;

-
- (b) an allowance or charge under CAA 2001;
 - (c) an excluded relevant intangibles debit or an excluded relevant intangibles credit (see section 404);
 - (d) a loss that—
 - (i) is made by the company in an accounting period other than that mentioned in section 402(2), and
 - (ii) is not an allowable loss for the purposes of TCGA 1992;
 - (e) a deficit from the company’s loan relationships for an accounting period other than that mentioned in section 402(2);
 - (f) expenses of management of the company that are referable to an accounting period other than that mentioned in section 402(2);
 - (g) a deduction under section 137 of CTA 2010 (group relief) [or section 188CK of that Act (group relief for carried-forward losses)] if and to the extent that it constitutes a loss of the worldwide group;
 - (h) a qualifying tax relief.
- (2) For the purposes of subsection (1)(g) the deduction constitutes a “loss of the worldwide group” if and to the extent that it comprises surrenderable amounts that are referable to times at which the surrendering company was a member of the worldwide group.
- (3) An amount is a qualifying tax relief for the purposes of subsection (1)(h) if it is any of the following—
- (a) an R&D expenditure credit within the meaning of section 104A of CTA 2009;
 - (b) a deduction under section 1044, 1063, 1068 or 1087 of CTA 2009 (additional relief for expenditure on research and development);
 - (c) an amount which is treated as a trading loss as a result of section 1092 of CTA 2009 (SMEs: deemed trading loss for pre-trading expenditure);
 - (d) a deduction under section 1147 or 1149 of CTA 2009 (relief for expenditure on contaminated or derelict land);
 - (e) a deduction under section 1199 of CTA 2009 (film tax relief);
 - (f) a deduction under section 1216CF of CTA 2009 (television tax relief);
 - (g) a deduction under section 1217CF of CTA 2009 (video games tax relief);
 - (h) a deduction under section 1217H of CTA 2009 (relief in relation to theatrical productions);
 - (i) a deduction under section 1217RD of CTA 2009 (orchestra tax relief);
 - (j) a deduction under section [1218ZCE] of CTA 2009 (museums and galleries exhibition tax relief);
 - (k) a qualifying charitable donation (whether made in the accounting period mentioned in section 402(2) or an earlier one);

- (l) a deduction under section 357A of CTA 2010 (profits from patents etc chargeable at lower rate of corporation tax).
- (4) An amount is an excluded amount for the purposes of condition B in section 402 if it is an allowable loss for the purposes of TCGA 1992.

404 Excluded relevant intangibles debits and excluded relevant intangibles credits

- (1) For the purposes of section 403 (and this section)–
- (a) a debit is a “relevant intangibles debit” if it is brought into account under a provision of Part 8 of CTA 2009 (intangible fixed assets) that is listed in column 1 of the following table;
- (b) a relevant intangibles debit is “excluded” to the extent indicated in the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>Excluded debits</i>
section 729	excluded in full
section 731	excluded in full
section 732	excluded if and to the extent that its amount is determined by reference to an excluded intangibles credit
section 735	excluded in full
section 736	excluded in full
section 872	excluded in full
section 874	excluded in full

- (2) For the purposes of section 403 (and this section)–
- (a) a credit is a “relevant intangibles credit” if it is brought into account under a provision of Part 8 of CTA 2009 (intangible fixed assets) that is listed in column 1 of the following table;
- (b) a relevant intangibles credit is “excluded” to the extent indicated in the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>Excluded credits</i>
section 723	excluded if and to the extent that its amount is determined by reference to excluded intangible debits and excluded intangible credits
section 725	excluded if and to the extent that its amount is determined by reference to an excluded intangibles debit
section 735	excluded if and to the extent that the cost of the asset in question exceeds its tax written-down value
section 872	excluded in full

<i>Provision</i>	<i>Excluded credits</i>
section 874	excluded in full

- (3) In the table in subsection (2) –
- (a) “tax written-down value” has the same meaning as in Part 8 of CTA 2009 (see Chapter 5 of that Part);
 - (b) “the cost of the asset” has the same meaning as in section 736 of that Act.

405 Double taxation relief

- (1) This section applies where –
- (a) apart from this section, an amount of income (“the relevant amount”) would meet condition A or B in section 402 in relation to a relevant accounting period of a company (“the company”), and
 - (b) the amount of corporation tax chargeable in respect of the relevant amount is reduced under section 18(2) (entitlement to credit for foreign tax reduces UK tax by amount of the credit).
- (2) The relevant amount is treated, for the purposes of section 402(2) (meaning of “adjusted corporation tax earnings”) as not meeting the condition mentioned in subsection (1)(a) to the extent that it consists of notional untaxed income.
- (3) For this purpose, the amount of the relevant amount that consists of “notional untaxed income” is –

$$\frac{A}{B}$$

where –

- A is the amount of the reduction mentioned in subsection (1)(b);
B is the rate of corporation tax applicable to the relevant amount.

CHAPTER 7

GROUP-INTEREST AND GROUP-EBITDA

Group-interest

406 Net group-interest expense

- (1) For the purposes of this Part the “net group-interest expense” of a worldwide group for a period of account of the group (“the relevant period of account”) is –

$$A - B$$

where –

- A is the sum of the amounts in respect of relevant expense matters that are recognised in the financial statements of the group for the period as items of profit or loss;
- B is the sum of the amounts in respect of relevant income matters that are recognised in the financial statements of the group for the period, as items of profit or loss.
- (2) Subsection (3) applies where –
- (a) an amount in respect of a relevant expense matter (“the capitalised expense”) is brought into account in financial statements of the group (whether for the relevant period of account or any earlier period) in determining the carrying value of an asset,
 - (b) the asset is not a relevant asset, and
 - (c) in the financial statements of the group for the relevant period of account, any of the carrying value is written down.
- (3) A in subsection (1) is treated as including so much of the amount written down as is attributable to the capitalised expense.
- (4) Subsection (5) applies where –
- (a) an amount in respect of a relevant income matter (“the capitalised income”) is brought into account in financial statements of the group (whether for the relevant period of account or any earlier period) in determining the carrying value of an asset,
 - (b) the asset is not a relevant asset, and
 - (c) in the financial statements of the group for the relevant period of account, any of the carrying value is written down.
- (5) B in subsection (1) is treated as increased by the amount of the reduction in the amount written down that is attributable to the capitalised income.
- (6) See –
- section 407 for the definitions of “relevant expense matter” and “relevant income matter”;
 - section 412(5) and (6) for the definition of “relevant asset”;
 - section 415 for provision affecting amounts recognised in financial statements in respect of certain profits or losses arising from derivative contracts.

407 “Relevant expense matter” and “relevant income matter”

- (1) In this Chapter “relevant expense matter” means any of the following –
- (a) interest payable under a loan relationship;
 - (b) expenses ancillary to a loan relationship;
 - (c) losses arising from a loan relationship or a related transaction, other than –
 - (i) exchange losses, and
 - (ii) impairment losses;
 - (d) dividends payable in respect of preference shares accounted for as a financial liability;

-
- (e) losses arising from a relevant derivative contract or a related transaction, other than—
 - (i) exchanges losses,
 - (ii) impairment losses, and
 - (iii) losses that arise in the course of dealing in derivative contracts so far as that activity forms part of the activities of a trade;
 - (f) expenses ancillary to a relevant derivative contract or related transaction;
 - (g) financing charges implicit in payments made under a finance lease;
 - (h) financing charges relating to debt factoring;
 - (i) financing charges implicit in payments made under a service concession arrangement if and to the extent that it is accounted for as a financial liability;
 - (j) interest payable in respect of a relevant non-lending relationship;
 - (k) alternative finance return payable under alternative finance arrangements;
 - (l) manufactured interest payable;
 - (m) financing charges in respect of the advance under a debtor repo or debtor quasi-repo;
 - (n) financing charges so far as they are made up of amounts which—
 - (i) are treated as interest payable under a loan relationship under a relevant provision of Chapter 2 of Part 16 of CTA 2010 (finance arrangements), or
 - (ii) would be so treated if the company in question were within the charge to corporation tax.
- (2) In this Chapter “relevant income matter” means any of the following—
- (a) interest receivable under a loan relationship;
 - (b) profits arising from a loan relationship or a related transaction, other than—
 - (i) exchange gains, and
 - (ii) the reversal of impairment losses;
 - (c) dividends receivable in respect of preference shares accounted for as a financial asset;
 - (d) gains arising from a relevant derivative contract or a related transaction, other than—
 - (i) exchange gains,
 - (ii) the reversal of impairment losses, and
 - (iii) gains that arise in the course of dealing in derivative contracts so far as that activity forms part of the activities of a trade;
 - (e) financing income implicit in amounts received under a finance lease;
 - (f) financing income relating to debt factoring;

- (g) financing income implicit in amounts received under a service concession arrangement if and to the extent that it is accounted for as a financial liability;
 - (h) interest receivable in respect of a relevant non-lending relationship;
 - (i) alternative finance return receivable under alternative finance arrangements;
 - (j) manufactured interest receivable;
 - (k) financing income in respect of the advance under a creditor repo or creditor quasi-repo;
 - (l) financing income so far as it is made up of amounts which –
 - (i) are treated as interest receivable under a loan relationship under a relevant provision of Chapter 2 of Part 16 of CTA 2010 (finance arrangements), or
 - (ii) would be so treated if the company in question were within the charge to corporation tax.
- (3) In subsection (1) –
- (a) in paragraph (c), “related transaction” and “exchange loss” have the same meanings as in Parts 5 and 6 of CTA 2009 (see sections 304 and 475 of that Act);
 - (b) in paragraph (e), “related transaction” and “exchange loss” have the same meaning as in Part 7 of that Act (see sections 596 and 705 of that Act).
- (4) In subsection (2) –
- (a) in paragraph (b), “exchange gain” has the same meaning as in Parts 5 and 6 of CTA 2009 (section 475 of that Act);
 - (b) in paragraph (d), “exchange gain” has the same meaning as in Part 7 of that Act (see section 705 of that Act).

408 Section 407: interpretation

- (1) For the purposes of section 407(1)(b), expenses are “ancillary” to a loan relationship if and only if they are incurred directly –
- (a) in bringing, or attempting to bring, the relationship into existence,
 - (b) in altering, or attempting to alter, the terms of the loan relationship, or
 - (c) in making payments under the loan relationship.
- (2) For the purposes of section 407(1)(e) and (2)(d) a derivative contract is “relevant” if its underlying subject matter consists only of one or more of the following –
- (a) interest rates;
 - (b) any index determined by reference to income or retail prices;
 - (c) currency;
 - (d) an asset or liability representing a loan relationship;
 - (e) any other underlying subject matter which is –
 - (i) subordinate in relation to any of the matters mentioned in paragraphs (a) to (d), or
 - (ii) of small value in comparison with the value of the underlying subject matter as a whole.

-
- (3) Whether part of the underlying subject matter of a derivative contract is subordinate or of small value is to be determined for the purposes of subsection (2)(e) by reference to the time when the company enters into or acquires the contract.
- (4) For the purposes of section 407(1)(f) expenses are “ancillary” to a relevant derivative contract or related transaction if and only if they are incurred directly –
- (a) in bringing the derivative contract into existence,
 - (b) in entering into or giving effect to the related transaction,
 - (c) in making payments under the derivative contract or as a result of the related transaction, or
 - (d) in taking steps to secure the receipt of payments under the derivative contract or in accordance with the related transaction.
- (5) For the purposes of section 407(1)(n) and (2)(l), the following provisions of Chapter 2 of Part 16 of CTA 2010 are “relevant” –
- (a) section 761(3) (type 1 finance arrangements: borrower a company);
 - (b) section 762(3) (type 1 finance arrangements: borrower a partnership);
 - (c) section 766(3) (type 2 finance arrangements);
 - (d) section 769(3) (type 3 finance arrangements).
- (6) In section 407 and this section –
- “alternative finance arrangements” has the same meaning as in Parts 5 and 6 of CTA 2009 (see section 501(2) of that Act);
 - “alternative finance return” has the same meaning as in Part 6 of CTA 2009 (see sections 511 to 513 of that Act);
 - “creditor quasi-repo” has the same meaning as in Chapter 10 of Part 6 of CTA 2009 (see section 544 of that Act);
 - “creditor repo” has the same meaning as in Chapter 10 of Part 6 of CTA 2009 (see section 543 of that Act);
 - “debtor quasi-repo” has the same meaning as in Chapter 10 of Part 6 of CTA 2009 (see section 549 of that Act);
 - “debtor repo” has the same meaning as in Chapter 10 of Part 6 of CTA 2009 (see section 548 of that Act);
 - “manufactured interest” has the same meaning as in Chapter 9 of Part 6 of CTA 2009 (see section 539(5) of that Act);
 - “relevant non-lending relationship” has the same meaning as in Chapter 2 of Part 6 of CTA 2009 (see sections 479 and 480 of that Act);
 - “underlying subject matter” has the same meaning as in Part 7 of CTA 2009 (see section 583 of that Act).

409 Adjusted net group-interest expense

- (1) For the purposes of this Part the “adjusted net group-interest expense” of a worldwide group for a period of account of the group is (subject to subsection (2)) –

$$A + B - C$$

where –

A is the net group-interest expense of the group for the period (see section 406);

B is the sum of any upward adjustments (see subsection (3));

C is the sum of any downward adjustments (see subsection (4)).

- (2) Where the amount determined under subsection (1) is negative, “the adjusted net group-interest expense” of the group for the period is nil.
- (3) The following are “upward adjustments” for the purposes of subsection (1) –
 - (a) an amount in respect of a relevant expense matter that is brought into account in the financial statements of the group for the period in determining the carrying value of an asset or liability;
 - (b) an amount that is included in the net group-interest expense of the group for the period by virtue of section 406(5) (capitalised income written off);
 - (c) an amount in respect of a relevant income matter that is recognised in the financial statements of the group for the period, as an item of profit or loss, so far as it –
 - (i) is prevented from being brought into account for the purposes of corporation tax by a member of the group by section 322(2) or 323A of CTA 2009 (cases where credits not required to be brought into account), or
 - (ii) would be so prevented if the member were within the charge to corporation tax.
- (4) The following are “downward adjustments” for the purposes of subsection (1) –
 - (a) an amount in respect of a relevant income matter that is brought into account in the financial statements of the group for the period, in determining the carrying value of an asset or liability;
 - (b) an amount that is included in the net group-interest expense of the group for the period by virtue of section 406(3) (capitalised expense written off);
 - (c) an amount in respect of a relevant expense matter that is recognised in the financial statements of the group for the period, as an item of profit or loss, so far as it –
 - (i) is prevented from being brought into account for the purposes of corporation tax by a member of the group by section 322(2) or 323A of CTA 2009 (cases where credits not required to be brought into account), or
 - (ii) would so prevented if the member were within the charge to corporation tax;
 - (d) an amount in respect of a relevant interest expense matter that is recognised in the financial statements of the group for the period, as an item of profit or loss, so far as –
 - (i) the amount represents a dividend payable in respect of preference shares, and

- (ii) those shares are recognised as a liability in the financial statements of the group for the period.
- (5) The references in subsections (3)(a) and (4)(a) to amounts brought into account in determining the carrying value of an asset or liability do not include amounts so brought into account as the result writing off any part of an amount which was itself so brought into account.

410 Qualifying net group-interest expense

- (1) For the purposes of this Part the “qualifying net group-interest expense” of a worldwide group for a period of account of the group is (subject to subsection (2)) –

$$A - B$$

where

A is the adjusted net group-interest expense of the group for the period (see section 409);

B is the sum of any downward adjustments (see subsection (3)).

- (2) Where the amount determined under subsection (1) is negative, “the adjusted net group-interest expense” of the group for the period is nil.
- (3) The following are “downward adjustments” for the purposes of subsection (1) –
- (a) an amount in respect of a relevant expense matter that is recognised in the financial statements of the group for the period, as an item of profit or loss, so far as it relates to a transaction with, or a financial liability owed to, an entity that, at any time during the period of account, is a related party of a member of the group;
 - (b) an amount in respect of a relevant expense matter that is recognised in the financial statements of the group for the period, as an item of profit or loss, so far as it relates to results-dependent securities issued by an entity;
 - (c) an amount in respect of a relevant expense matter that is recognised in the financial statements of the group for the period, as an item of profit or loss, so far as it relates to equity notes (within the meaning given by section 1016 of CTA 2010) issued by an entity.
- (4) In a case in which the entity mentioned in subsection (3)(a) is not a related party of a member of the group during any part of the period of account, the amount of the downward adjustment under that provision is to be reduced by such amount (if any) as is attributable, on a just and reasonable basis, to that part.
- (5) In this section references to “results-dependent securities” issued by an entity are to securities issued by the entity where the consideration given by the entity for the use of the principal secured depends (to any extent) on –
- (a) the results of the entity’s business, or

- (b) the results of the business of any other entity that was a member of the group at any time during the period of account of the group.
- (6) In subsection (5) references to a business include part of a business.

Group-EBITDA

411 Group-EBITDA

- (1) For the purposes of this Part “the group-EBITDA” of a worldwide group for a period of account of the group (“the relevant period of account”) is –

$$\text{PBT} + \text{I} + \text{DA}$$

where –

PBT is the group’s profit before tax (which may be a negative amount) (see subsection (2));

I is the net group-interest expense of the group for the period (which may be a negative amount) (see section 406);

DA is the group’s depreciation and amortisation adjustment (which may be a negative amount) (see subsection (3)).

- (2) In this section “the group’s profit before tax” means –
- (a) the sum of the amounts that are recognised in the financial statements of the group for the period, as items of profit or loss, in respect of income of any description other than tax income, less
 - (b) the sum of the amounts that are recognised in the financial statements of the group for the period, as items of profit or loss, in respect of expenses of any description other than tax expense.

In this subsection “tax income” and “tax expense” have the meaning they have for accounting purposes.

- (3) In this section “the group’s depreciation and amortisation adjustment” means the sum of the following amounts (any of which may be negative) –
- (a) the capital (expenditure) adjustment (see section 412);
 - (b) the capital (fair value movement) adjustment (see section 413);
 - (c) the capital (disposals) adjustment (see section 414).
- (4) The following expressions have the same meaning in sections 412 to 414 as they have in this section –
- “the relevant period of account”;
 - “the group’s profit before tax”.
- (5) For provision affecting amounts recognised in financial statements in respect of certain profits or losses arising from derivative contracts, see section 415.

412 The capital (expenditure) adjustment

- (1) For the purposes of section 411, “the capital (expenditure) adjustment” is –

$$A - B - C$$

where –

A is the sum of the amounts (if any) in respect of relevant capital expenditure which are brought into account in determining the group’s profit before tax;

B is the sum of the amounts (if any) in respect of relevant capital expenditure reversals which are brought into account in determining the group’s profit before tax;

C is the sum of the amounts (if any) in respect of relevant capital income which are brought into account in determining the group’s profit before tax.

- (2) In this section “relevant capital expenditure” means expenditure of a capital nature that relates to relevant assets and that –
- (a) is incurred and written off in the relevant period of account, or
 - (b) is written off in the relevant period of account by way of depreciation or amortisation, or as the result of an impairment review.
- (3) In this section “relevant capital expenditure reversals” means any amounts of relevant capital expenditure that –
- (a) were written off in a period before the relevant period of account, and
 - (b) are reversed in the relevant period of account.
- (4) In this section “relevant capital income” means income of a capital nature that relates to relevant assets.
- (5) In this Chapter “relevant asset” means an asset that is –
- (a) plant, property and equipment,
 - (b) an intangible asset,
 - (c) goodwill,
 - (d) shares in a company, or
 - (e) an interest in an entity which entitles the holder to a share of the profits of the entity.
- (6) In subsection (5) –
- (a) “plant, property and equipment” has the meaning it has for accounting purposes;
 - (b) “intangible asset” has the meaning it has for accounting purposes (and includes an internally-generated intangible asset);
 - (c) “goodwill” has the meaning it has for accounting purposes (and includes internally-generated goodwill);
 - (d) “entity” includes anything which is treated as an entity in the financial statements of the group (regardless of whether it has a legal personality as a body corporate).

Section 712(2) and (3) of CTA 2009 (“intangible asset” includes intellectual property) applies for the purposes of paragraph (b).

- (7) An amount does not fall within A in subsection (1) if it is brought into account in determining a profit or loss on the disposal of a relevant asset.

413 The capital (fair value movement) adjustment

- (1) In section 411, “the capital (fair value movement) adjustment” means the sum of any relevant fair value movements.
- (2) For the purposes of subsection (1) there is a “relevant fair value movement” where—
- (a) the carrying value of a relevant asset is measured, for the purposes of the financial statements of the group, using fair value accounting, and
 - (b) an amount representing a change in the carrying value of the asset is brought into account in determining the group’s profit before tax.
- (3) The amount of the relevant fair value movement is the amount of the change mentioned in subsection (2)(b) and—
- (a) is a positive amount where the change is a loss;
 - (b) is a negative amount where the change is a profit.
- (4) References in this section to a change in the carrying value of a relevant asset do not include a change where the amount brought into account in respect of the change as mentioned in subsection (2)(b) is of a revenue nature.

414 The capital (disposals) adjustment

- (1) For the purposes section 411, “the capital (disposals) adjustment” is—

$$A - B + C$$

where—

- A is the sum of the amounts (if any) that are brought into account in determining the group’s profit before tax and that represent losses on disposals of relevant assets;
 - B is the sum of the amounts (if any) that are brought into account in determining the group’s profit before tax and that represent profits on disposals of relevant assets;
 - C the sum of any recalculated profit amounts (see subsections (2) to (7)).
- (2) For the purposes of the definition of C in subsection (1) there is a “recalculated profit amount” where the following two conditions are met.
- (3) The first condition is that an amount is brought into account in determining the group’s profit before tax in respect of a profit or loss on the disposal of a relevant asset (or is not so included only because the result of the calculation for the purposes of determining whether there was such an amount was nil).

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- (4) The second condition is that –
 - (a) the relevant proceeds, exceeds
 - (b) the relevant cost.
 - (5) The amount of the recalculated profit amount is the amount of the excess mentioned in subsection (4).
 - (6) In this section “the relevant proceeds” means the amount of income of a capital nature that is brought into account in determining the profit or loss mentioned in subsection (3) (or in the calculation mentioned in parenthesis in that subsection).
 - (7) In this section “the relevant cost” means (subject to subsection (8)) the amount of expenditure of a capital nature that is brought into account in determining the profit or loss mentioned in subsection (3) (or in the calculation mentioned in parenthesis in that subsection).
 - (8) For the purposes of subsection (7), any adjustment made to the amount brought into account as mentioned in that subsection is to be disregarded where the adjustment is in respect of amounts that –
 - (a) are otherwise recognised, in the financial statements of the group for the relevant period of account, as items of profit or loss, or
 - (b) were so recognised in the financial statements of the group for an earlier period.
 - (9) References in this section to a relevant asset include part of a relevant asset.
 - (10) References in this section to the disposal of a relevant asset do not include a disposal where the profit or loss (if any) on the disposal is of a revenue nature.

Treatment of derivative contracts in financial statements of worldwide group

415 Derivative contracts subject to fair value accounting

- (1) This section applies where –
 - (a) an amount is recognised in a worldwide group’s financial statements for a period as an item of profit and loss, and
 - (b) the amount consists of, or includes, excluded derivative contract amounts.
- (2) The financial statements are treated for the purposes of this Part (apart from this section) as if the amount mentioned in subsection (1)(a) –
 - (a) did not consist of or include the excluded derivative contract amounts, and
 - (b) instead, consisted of or included amounts which, on the assumptions in subsection (4), would be brought into account for the purposes of corporation tax as a result of regulation 9 or 10 of the Disregard Regulations.
- (3) For the purposes of this section, “excluded derivative contract amount” means an amount which –

- (a) would be recognised in determining the profit or loss of a member of the worldwide group if it used generally accepted accounting practice, but
 - (b) would, on the assumptions in subsection (4), be excluded from section 597(1) of CTA 2009 (amounts recognised in determining a company’s profit or loss) as a result of a relevant provision of the Disregard Regulations.
- (4) The assumptions mentioned in subsections (2)(b) and (3)(b) are –
- (a) that all members of the group are within the charge to corporation tax;
 - (b) that paragraph (5) of regulation 7 of the Disregard Regulations is of no effect;
 - (c) that where –
 - (i) a member of the group (“member A”) holds a derivative contract,
 - (ii) the group has a hedging relationship between that derivative contract (on the one hand), and an asset, liability, receipt or expense (on the other), and
 - (iii) the asset, liability, receipt or expense is held, or is expected to be received or incurred, by a member of the group other than member A,
 the asset, liability, receipt or expense is held, or is expected to be received or incurred, by member A.
- (5) For the purposes of subsection (4)(c)(ii) the group has a hedging relationship between a derivative contract (on the one hand) and an asset, liability, receipt or expense (on the other) if, were those things held, received or incurred by a single company, the company would have a hedging relationship between them.
- Regulation 2(5) of the Disregard Regulations (hedging relationships of a company) applies for the purposes of this subsection.
- (6) In this section –
- (a) “the Disregard Regulations” means the Loan Relationship and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 (S.I. 2004/3256);
 - (b) the following are “relevant provisions” of the Disregard Regulations –
 - (i) regulation 7 (fair value profits or losses arising from derivative contracts which are currency contracts);
 - (ii) regulation 8 (profits or losses arising from derivative contracts which are commodity contracts or debt contracts);
 - (iii) regulation 9 (profits or losses arising from derivative contracts which are interest rate contracts).

*Effect of interest allowance (alternative calculation) election***416 Capitalised interest brought into account for tax purposes in accordance with GAAP**

- (1) Where an interest allowance (alternative calculation) election (see paragraph 12 of Schedule 7A) has effect in relation to a period of account of a worldwide group (“the relevant period of account”), this Chapter applies in relation to the period subject to this section.
- (2) Section 409 (adjusted net group-interest expense of a worldwide group) has effect as if—
 - (a) subsections (3)(a) and (4)(a) (which relate to capitalised interest) did not apply in relation to a GAAP-taxable asset or liability, and
 - (b) subsections (3)(b) and (4)(b) (which relate to capitalised interest written off) did not apply in relation to a GAAP-taxable asset or liability.
- (3) But subsection (2)(b) of this section is of no effect where the adjusted net group-interest expense of the group for a period of account before the relevant period of account included any amount by virtue of section 409(3)(a) or (4)(a) in respect of the GAAP-taxable asset or liability.
- (4) For the purposes of this section an asset or liability is “GAAP-taxable” if any profit or loss for corporation tax purposes in relation to the asset or liability falls to be calculated in accordance with generally accepted accounting practice.
- (5) For the purposes of this section, all members of the group are treated as within the charge to corporation tax.

417 Profits and losses on disposals of relevant assets

- (1) Where an interest allowance (alternative calculation) election has effect in relation to a period of account of a worldwide group (“the relevant period of account”), this Chapter applies in relation to the period subject to this section.
- (2) Section 414 (the capital (disposals) adjustment) has effect as if—
 - (a) the definition of C in subsection (1) of that section did not apply, and
 - (b) instead, C were defined for the purposes of that section as—
 - (i) the sum of any relevant gains, less
 - (ii) the sum of any relevant losses,or, where that is a negative amount, nil.
- (3) For the purposes of this section, there is a “relevant gain” or “relevant loss” where condition A or B is met.
- (4) Condition A is that a member of the group disposes of a relevant asset during the relevant period of account.
- (5) Condition B is that—
 - (a) a member of the group ceases to be a member of the group during the relevant period of account, and

- (b) the member held a relevant asset immediately before ceasing to be a member of the group.
- (6) Where condition A is met, the amount of the relevant gain or relevant loss is the amount of the chargeable gain or allowable loss that would, on the assumptions in subsection (8), accrue to the member on the disposal.
- (7) Where condition B is met, the amount of the relevant gain or relevant loss is the amount of the chargeable gain or allowable loss that would, on the assumptions in subsection (8), accrue to the member if the member –
 - (a) disposed of the relevant asset immediately before ceasing to be a member of the group, and
 - (b) received such consideration for that disposal as it is just and reasonable to attribute to it, having regard to the consideration received by the group for its interests in the member.
- (8) The assumptions mentioned in subsections (6) and (7) are that –
 - (a) all members of the group are within the charge to corporation tax;
 - (b) Schedule 7AC to TCGA 1992 (exemptions for disposals by companies with substantial shareholdings) is no effect;
 - (c) Part 2 (double taxation relief) is of no effect.

418 Employers' pension contributions

- (1) Where an interest allowance (alternative calculation) election has effect in relation to a period of account of a worldwide group, this Chapter applies in relation to the period subject to this section.
- (2) The definition of “the group’s profit before tax” in subsection (2) of section 411 has effect as if references to amounts that are recognised in the financial statements of the group for the period, as items of profit or loss, did not include amounts so recognised in respect of employer pension contributions.
- (3) The group’s profit before tax, for the purposes of that section, is reduced by the total of the relief to which members of the group are entitled, by virtue of sections 196 to 200 of FA 2004, in respect of relevant employer pension contributions paid during the period.
- (4) In this section –
 - (a) “employer pension contributions” means contributions paid by an employer under a registered pension scheme in respect of an individual;
 - (b) employer pension contributions are “relevant” if they are paid at a time at which the employer is a member of the group.

419 Employee share acquisitions

- (1) Where an interest allowance (alternative calculation) election has effect in relation to a period of account of a worldwide group, this Chapter applies in relation to the period subject to this section.

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- (2) The definition of “the group’s profit before tax” in subsection (2) of section 411 has effect as if references to amounts that are recognised in the financial statements of the group for the period, as items of profit or loss, did not include amounts so recognised in respect of employee share acquisition arrangements.
 - (3) The group’s profit before tax, for the purposes of that section, is reduced by such amount as, on a just and reasonable basis, reflects the effect on the group in the period of –
 - (a) deductions that would, on the assumption in subsection (4), be allowed to members of the group under Part 11 of CTA 2009 (relief for particular employee share acquisition schemes,
 - (b) amounts that would, on that assumption, be treated as received by members of the group under that Part, and
 - (c) relief that would, on that assumption, be given to members of the group under Part 12 of that Act (other relief for employee share acquisitions).
 - (4) The assumption mentioned in subsection (3) is that all members of the group are within the charge to corporation tax.
 - (5) In this section “employee share acquisition arrangements” means arrangements in respect of which –
 - (a) deductions are allowed, or amounts are treated as received, under Part 11 of CTA 2009, or
 - (b) relief is given under Part 12 of CTA 2009.

420 Changes in accounting policy

- (1) Where an interest allowance (alternative calculation) election has effect in relation to a period of account of a worldwide group (“the relevant period of account”), this Chapter applies in relation to the period subject to this section.
- (2) The financial statements of the group for the relevant period of account are to be treated as subject to such adjustments as would be made to them under the change of accounting policy provisions if the group were a company that –
 - (a) was within the charge to corporation tax,
 - (b) held the assets and owed the liabilities recognised in the financial statements, to the extent that they are so recognised, and
 - (c) carried on the trades and other activities giving rise to amounts recognised in the financial statements as items of profit and loss.
- (3) In this section “the change of accounting policy provisions” means –
 - (a) Chapter 14 of Part 3 of CTA 2009 (trading profits);
 - (b) sections 315 to 319 of that Act (loan relationships);
 - (c) sections 613 to 615 of that Act (derivative contracts);
 - (d) Chapter 15 of Part 8 of that Act (intangible fixed assets);
 - (e) the Loan Relationships and Derivative Contracts (Change of Accounting Practice) Regulations 2004 (S.I. 2004/3271).
- (4) For the purposes of subsection (2) –

- (a) the change of accounting policy provisions are to be read subject to the necessary modifications, and
 - (b) it is to be assumed that any election under the change of accounting policy provisions (as applied) has been made.
- (5) In this section “accounting policy”, in relation to a worldwide group, means the principles, bases, conventions, rules and practices applied in preparing and presenting the group’s financial statements. This subsection does not apply in relation to the meaning of “the change of accounting policy provisions”.

Effect of interest allowance (non-consolidated investment) election

421 Group interest and group-EBITDA

- (1) Where an interest allowance (non-consolidated investment) election (see paragraph 13 of Schedule 7A) has effect in relation to a period of account of a worldwide group, this Chapter applies in relation to the period subject to this section.
- (2) In this section and section 422 (which contains further interpretative provision) –
 - (a) “the principal worldwide group” means the worldwide group mentioned in subsection (1);
 - (b) “the relevant period of account” means the period of account mentioned in subsection (1).
- (3) The financial statements of the principal worldwide group for the relevant period of account are treated as if –
 - (a) no amounts were recognised in them, as items of profit or loss, in respect of relevant income matters so far as they relate to financial liabilities owed to any member of the principal worldwide group by any member of an associated worldwide group, and
 - (b) no amounts were recognised in them, as items of profits or loss, in respect of any profit or loss attributable to an interest held by any member of the principal worldwide group in any member of an associated worldwide group
- (4) The adjusted net group-interest expense of the principal worldwide group for the relevant period of account is treated as increased by the appropriate proportion of the adjusted net group-interest expense for the period of each associated worldwide group.
- (5) The qualifying net group-interest expense of the principal worldwide group for the relevant period of account is treated as increased by the appropriate proportion of the qualifying net group-interest expense for the period of each associated worldwide group.
- (6) The group-EBITDA of the principal worldwide group for the relevant period of account is treated as increased by the appropriate proportion of the group-EBITDA of each associated worldwide group for the period.
- (7) In this section “the appropriate proportion”, in relation to an associated worldwide group means the proportion of the profits or losses of the associated worldwide group arising in the relevant

period of account to which the principal worldwide group is entitled.

- (8) In this section and section 422 “specified” means specified in the interest allowance (non-consolidated investment) election.

422 Section 421: associated worldwide groups

- (1) This section has effect for the purposes of section 421 and this section.
- (2) “Associated worldwide group” means the worldwide group of which a specified non-consolidated associate is the ultimate parent.
- (3) Where (apart from this subsection) a specified non-consolidated associate does not fall within section 457(1)(a) (conditions for being the ultimate parent of a worldwide group), it is treated as if it did fall within that provision.
- (4) Where (apart from this subsection) financial statements of an associated worldwide group are not drawn up in respect of the relevant period of account, IAS financial statements of the associated worldwide group are treated as having been drawn up in respect of that period.
- (5) The associated worldwide group’s financial statements for the relevant period of account are treated as if no amounts were recognised in them, as items of profit or loss, in respect of relevant expense matters so far as they relate to financial liabilities owed to any member of the principal worldwide group by any member of the associated worldwide group.
- (6) Subsection (7) has effect in the application of this Part (for the purposes mentioned in subsection (1)) in relation to the financial statements of an associated worldwide group for the relevant period of account.
- (7) The associated worldwide group is treated –
- (a) as having made an interest allowance (alternative calculation) election if and only if such an election has effect in relation to the relevant period of account of the principal worldwide group, and
 - (b) as not having made any other election under this Part.

423 Meaning of “non-consolidated associate”

- (1) An entity is a “non-consolidated associate” of a worldwide group, in relation to a period of account of the group (“the relevant period of account”) if condition A or B is met.
- (2) Condition A is that the entity is accounted for in the financial statements of the worldwide group for the relevant period of account –
- (a) as a joint venture or an associate, and
 - (b) using the gross equity method or the equity method.
- (3) Condition B is that –
- (a) the entity is a partnership, and

- (b) an interest allowance (consolidated partnership) election has effect in relation to the relevant period of account.
- (4) In this section the following expressions have the meaning they have for accounting purposes –
 - “associate”;
 - “equity method”;
 - “gross equity method”;
 - “joint venture”.
- (5) In this section “entity” includes anything which is treated as an entity in the financial statements of the worldwide group (regardless of whether it has a legal personality as a body corporate).
- (6) This section has effect for the purposes of this Part.

Effect of interest allowance (consolidated partnerships) election

424 Interest allowance (consolidated partnerships) election

- (1) Where an interest allowance (consolidated partnerships) election (see paragraph 14 of Schedule 7A) has effect in relation to a period of account of a worldwide group, this Chapter applies in relation to the period subject to this section.
- (2) The financial statements of the group for the period are treated as if –
 - (a) no amounts were recognised in them, as items of profit or loss, in respect of any income or expenses of a specified consolidated partnership, and
 - (b) instead, each specified consolidated partnership were accounted for using the equity method.
- (3) In subsection (2)(b) “the equity method” has the meaning it has for accounting purposes.
- (4) In this Part “consolidated partnership”, in relation to a period of account of a worldwide group, means a partnership in relation to which conditions A and B are met.
- (5) Condition A is that, in the financial statements of the worldwide group for the period, the results of the partnership are consolidated with those of the ultimate parent as the results of a single economic entity.
- (6) Condition B is that at no time during the period does the partnership have a subsidiary that is a company.
- (7) In this section –
 - (a) “specified” means specified in the interest allowance (consolidated partnerships) election or elections;
 - (b) “subsidiary” has the meaning given by international accounting standards.

*Interpretation***425 Interpretation of Chapter**

In this Chapter the following expressions have the meaning they have for accounting purposes—

- “item of profit or loss”;
- “item of other comprehensive income”.

CHAPTER 8

PUBLIC INFRASTRUCTURE

*Overview***426 Overview of Chapter**

- (1) This Chapter –
 - (a) alters the way in which this Part has effect in relation to companies (referred to as “qualifying infrastructure companies”) that are fully taxed in the United Kingdom, and
 - (b) operates by reference to the provision of public infrastructure assets or the carrying on of certain other related activities.
- (2) In addition to the requirement for the company to be fully taxed in the United Kingdom, the qualifying requirements are –
 - (a) a requirement designed to ensure that all, or all but an insignificant proportion, of the company’s income and assets are referable to activities in relation to public infrastructure assets,
 - (b) a requirement for the level of indebtedness of the company and other associated qualifying infrastructure companies to be not significantly higher than the level of indebtedness of other comparable entities in the group, and
 - (c) a requirement for the company to make an election (which may be revoked, subject to a five-year rule in relation to the revocation and the ability to make a fresh election).
- (3) Two different types of asset meet the definition of a “public infrastructure asset”, namely –
 - (a) tangible assets forming part of the infrastructure of the United Kingdom that meet a public benefit test, and
 - (b) buildings (or parts of buildings) that are part of a UK property business and are let on a short-term basis to unrelated parties.
- (4) In either case an asset counts as a public infrastructure asset only if –
 - (a) it has had, has or is likely to have an expected economic life of at least 10 years, and
 - (b) it is shown in a balance sheet of a member of the group that is fully taxed in the United Kingdom.
- (5) The detail of the above tests is set out in sections 427 to 430.

- (6) The substantive rules provide that an amount does not count as a tax-interest expense amount if –
- (a) the creditor in relation to the amount is an unrelated party or another qualifying infrastructure company or the amount is in respect of a loan relationship entered into on or before 12 May 2016 (see sections 431 and 432), and
 - (b) the recourse of the creditor in relation to the amount is limited to the income, assets or shares of or in a qualifying infrastructure company (ignoring certain financial assistance).
- (7) In addition –
- (a) provision is made for adjusting the operation of this Part to take into account the effect of the above rules (for example, the tax-EBITDA of a qualifying infrastructure company is treated as nil (see section 434)), and
 - (b) provision is made in relation to the decommissioning of a public infrastructure asset (see section 436).

Key concepts

427 Meaning of “qualifying infrastructure company”

- (1) For the purposes of this Chapter a company is a “qualifying infrastructure company” throughout an accounting period if –
- (a) it meets the public infrastructure income test for the accounting period (see subsection (2)),
 - (b) it meets the public infrastructure assets test for the accounting period (see subsections (3) to (6)),
 - (c) it meets the comparative debt test in the accounting period (see subsections (7) to (9)),
 - (d) it is fully taxed in the United Kingdom in the accounting period (see subsection (10)), and
 - (e) it has made (or is treated as having made) an election for the purposes of this section that has effect for the accounting period (see section 428).
- (2) A company meets the public infrastructure income test for an accounting period if all, or all but an insignificant proportion, of its income for the accounting period derives from –
- (a) qualifying infrastructure activities carried on by the company (see sections 429 and 430),
 - (b) shares in a qualifying infrastructure company, or
 - (c) loan relationships or other financing arrangements to which the only other party is a qualifying infrastructure company.
- (3) A company meets the public infrastructure assets test for an accounting period if all, or all but an insignificant proportion, of the total value of the company’s assets recognised in an appropriate balance sheet on each day in that period derive from –
- (a) tangible assets that are related to qualifying infrastructure activities,
 - (b) service concession arrangements in respect of assets that are related to qualifying infrastructure activities,

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- (c) financial assets to which the company is a party for the purpose of the carrying on of qualifying infrastructure activities by the company or another associated qualifying infrastructure company,
 - (d) shares in a qualifying infrastructure company, and
 - (e) loan relationships or other financing arrangements to which the only other party is a qualifying infrastructure company.
 - (4) For the purposes of subsection (3)(a) and (b) assets are “related to qualifying infrastructure activities” in the case of a company if the assets are—
 - (a) public infrastructure assets (see section 429(2) and (5)) in relation to the company that are provided by the company, or
 - (b) other assets used in the course of a qualifying infrastructure activity carried on by the company or by an associated qualifying infrastructure company.
 - (5) For the purposes of subsection (3) the reference to the value of an asset recognised in an appropriate balance sheet of a company on a day is to the value which is, or would be, recognised in a balance sheet of the company drawn up on that day.
 - (6) A company is not to be taken as failing to meet the public infrastructure assets test for an accounting period if, ignoring this subsection, that test would have been failed on a particular day or days merely as a result of particular circumstances which—
 - (a) were, and were always intended to be, of a temporary nature, and
 - (b) did not occur on more than 5 days in the accounting period (which need not be consecutive).
 - (7) The comparative debt test operates by reference to—
 - (a) the total indebtedness of the company and of every associated qualifying infrastructure company (“the Chapter 8 debt”) on a day, and
 - (b) the total indebtedness of comparable group entities (“the non-Chapter 8 debt”) on a day.
 - (8) In subsection (7)(b) “comparable group entities” means entities (other than those mentioned in subsection (7)(a))—
 - (a) who are members of the worldwide group on the day in question, and
 - (b) who carry on activities of the same or similar kind as those carried on by the companies that are qualifying infrastructure companies.
 - (9) A company meets the comparative debt test in an accounting period if on each day in that period it can reasonably be concluded that the Chapter 8 debt is not significantly higher than the non-Chapter 8 debt after making appropriate adjustments to take account of—
 - (a) the number and nature of assets of the companies or entities concerned, and
 - (b) all other circumstances that are relevant to determining what is a reasonable level of total indebtedness for the companies or entities concerned.

- (10) A company is fully taxed in the United Kingdom in an accounting period if—
- (a) every activity that the company carries on at any time in the accounting period is within the charge to corporation tax,
 - (b) the company has not made an election under section 18A of CTA 2009 (exemption for profits or losses of foreign permanent establishments) that has effect for the accounting period, and
 - (c) the company has not made a claim for relief under Chapter 2 of Part 2 (double taxation relief) for the accounting period.

428 Section 427: supplementary

- (1) An election under section 427—
- (a) must be made before the beginning of the accounting period in relation to which it is to have effect, and
 - (b) has effect in relation to that accounting period and all subsequent accounting periods (subject to subsections (2) to (4)).
- (2) An election under section 427 may be revoked.
- (3) A revocation of an election under section 427—
- (a) may not be made unless the election being revoked has had effect for a period of at least five years, and
 - (b) must be made before the beginning of the accounting period from which it has effect.
- (4) Once revoked, a fresh election may be made under section 427 but cannot have effect in relation to any accounting period that begins before the end of the period of 5 years beginning with the first day of the accounting period from which the revocation took effect.
- (5) If—
- (a) a qualifying infrastructure company transfers to another company a business, or a part of a business, that consists of the carrying on of qualifying infrastructure activities, and
 - (b) the transferee has not made an election under section 427 that has effect for the accounting period in which the transfer takes place,
- the transferee is to be treated as if it had made the election under that section that the transferor had made.
- (6) If a company has made an election under section 427 that has effect in relation to an accounting period, the company—
- (a) may not make an election under section 18A of CTA 2009 that has effect for the accounting period, and
 - (b) may not make a claim for relief under Chapter 2 of Part 2 for the accounting period.

429 Meaning of “qualifying infrastructure activity”

- (1) For the purposes of this Chapter a company carries on a “qualifying infrastructure activity” if the company—
- (a) provides a public infrastructure asset (see subsections (2) and (5)), or

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- (b) carries on any other activity that is ancillary to, or facilitates, the provision of a public infrastructure asset.
- (2) For the purposes of this Chapter an asset is a “public infrastructure asset” in relation to a company at any time if—
- (a) the asset is, or is to be, a tangible asset forming part of the infrastructure of the United Kingdom,
 - (b) the asset meets the public benefit test (see subsections (3) and (4)),
 - (c) the asset has had, has or is likely to have an expected economic life of at least 10 years, and
 - (d) the asset meets the group balance sheet test (see subsection (9)).
- (3) An asset meets the “public benefit test” if—
- (a) the asset is, or is to be, procured by a relevant public body, or
 - (b) the asset is, or is to be, used in the course of a regulated activity.
- (4) An asset is used in the course of a “regulated activity” if its use—
- (a) is regulated by an infrastructure authority (see section 430(2)), or
 - (b) could be regulated by an infrastructure authority if the authority exercised any of its powers.
- (5) For the purposes of this Chapter a building, or part of a building, is also a “public infrastructure asset” in relation to a company at any time if—
- (a) the company, or another member of the worldwide group of which it is a member at that time, carries on a UK property business consisting of or including the building or part,
 - (b) the building or part is, or is to be, let on a short-term basis to persons who, at that time, are not related parties of the company or member,
 - (c) the building or part has had, has or is likely to have an expected economic life of at least 10 years, and
 - (d) the building or part meets the group balance sheet test.
- (6) A building, or part of a building, is “let” to a person if the person is entitled to the use of the building or part under a lease or other arrangement.
- (7) A building, or part of a building, is let on a “short-term basis” if the lease or other arrangement in question—
- (a) has an effective duration which is 50 years or less, and
 - (b) is not an arrangement to which any provision of Chapter 2 of Part 16 of CTA 2010 applies (finance arrangements).
- (8) Whether or not a lease or other arrangement has an effective duration which is 50 years or less is determined in accordance with Chapter 4 of Part 4 of CTA 2009 (reading any reference to a lease as a reference to a lease or other arrangement within subsection (6)).
- (9) An asset meets the “group balance sheet test” in relation to a company at any time if—

- (a) an entry in respect of the asset is, or would be, recognised (whether as a tangible asset or otherwise) in a balance sheet of the company, or an associated company, that is drawn up at that time, and
 - (b) the company or associated company is within the charge to corporation tax at that time in respect of all of its sources of income and no election or claim mentioned in 427(10)(b) or (c) has effect for a period including that time.
- (10) For the purposes of this Chapter references to provision, in relation to a public infrastructure asset, include its acquisition, design, construction, conversion, improvement, operation or repair.

430 Section 429: supplementary

- (1) In section 429 “infrastructure” includes—
 - (a) water, electricity, gas, telecommunications or sewerage facilities,
 - (b) railway facilities (including rolling stock), roads or other transport facilities,
 - (c) health or educational facilities,
 - (d) training facilities for any of the armed forces or any police force,
 - (e) court or prison facilities, and
 - (f) waste processing facilities.
- (2) Each of the following is an “infrastructure authority” for the purposes of section 429(4)—
 - (a) the Civil Aviation Authority so far as exercising functions in relation to the provision of airports (within the meaning of the Airports Act 1986),
 - (b) each of the following so far as exercising functions in relation to waste processing—
 - (i) the Environment Agency,
 - (ii) the Scottish Environmental Protection Agency,
 - (iii) the Northern Ireland Environment Agency, or
 - (iv) Natural Resources Wales,
 - (c) the Gas and Electricity Markets Authority,
 - (d) each of the following so far as exercising functions in relation to the management of ports or harbours—
 - (i) a harbour authority within the meaning of the Harbours Act 1964, or
 - (ii) a harbour authority within the meaning of the Harbours Act (Northern Ireland) 1970,
 - (e) the Northern Ireland Authority for Utility Regulation,
 - (f) the Office of Communications so far as exercising functions in relation to the provision of electronic communication services (within the meaning of the Communications Act 2003) or the management of the radio spectrum,
 - (g) the Office of Nuclear Regulation,
 - (h) the Office of Rail and Road,
 - (i) the Oil and Gas Authority,

- (j) the Water Services Regulation Authority or the Water Industry Commission for Scotland, or
 - (k) any other public authority which has functions of a regulatory nature exercisable in relation to the use of tangible assets forming part of the infrastructure of the United Kingdom.
- (3) The Commissioners may by regulations amend the definition of “infrastructure authority”.

Exemption and related provision

431 Exemption for interest payable to third parties etc

- (1) Amounts that arise to a qualifying infrastructure company in a relevant accounting period are not to be regarded for the purposes of this Part as tax-interest expense amounts of the company so far as they qualify as exempt amounts in that period (see subsections (2) and (3)).
- (2) An amount qualifies as an exempt amount so far as it is attributable, on a just and reasonable apportionment, to the times in the relevant accounting period when—
 - (a) the creditor in relation to the amount is within subsection (3) or the amount is in respect of a qualifying old loan relationship (see section 432), and
 - (b) the recourse of the creditor in relation to the amount is limited to relevant infrastructure matters (see subsections (4) and (5)).
- (3) The creditor is within this subsection if—
 - (a) the creditor is not a related party of the company, or
 - (b) the creditor is a company which is a qualifying infrastructure company,
 but section 452(2) does not apply for the purposes of paragraph (a).
- (4) The recourse of the creditor is limited to relevant infrastructure matters if, in the event that the company fails to perform its obligations in question, the recourse of the creditor is limited to—
 - (a) income of a qualifying infrastructure company,
 - (b) assets of a qualifying infrastructure company, or
 - (c) shares in a qualifying infrastructure company,
 whether the income, assets or shares are those of or in the company concerned or another qualifying infrastructure company.
- (5) For the purposes of subsection (4) a guarantee, indemnity or other financial assistance in favour of the creditor is ignored at any time if it is provided by—
 - (a) a person who is not a related party of the company at that time, or
 - (b) a relevant public body at that time.
- (6) In this section “creditor” means—
 - (a) if the amount meets condition A in section 382, the person who is party to the loan relationship as creditor,

- (b) if the amount meets condition B in that section, the person other than the company who is party to the derivative contract, and
- (c) if the amount meets condition C in that section, the person other than the company who is party to the relevant arrangement or transaction.

432 Exemption in respect of certain pre-13 May 2016 loan relationships

- (1) A loan relationship is a “qualifying old loan relationship” of a qualifying infrastructure company if –
 - (a) the company entered into the loan relationship on or before 12 May 2016, and
 - (b) as at that date, at least 80% of the total value of the company’s future qualifying infrastructure receipts for a period of at least 10 years was highly predictable by reference to qualifying public contracts,
 but see subsections (7) and (8) for cases where a loan relationship is not a qualifying old loan relationship of the company.
- (2) Receipts are “qualifying infrastructure receipts” of a company if –
 - (a) the receipts arise from qualifying infrastructure activities carried on by the company, or
 - (b) the receipts arise from qualifying infrastructure activities carried on by any other qualifying infrastructure company in which it holds shares or to which it has lent money.
- (3) Receipts are highly predictable by reference to qualifying public contracts if the total value of the receipts can be predicted with a high degree of certainty because –
 - (a) the amount of each of the receipts is fixed by a qualifying public contract, and
 - (b) the factors affecting the volume of receipts are fixed by a qualifying contract or are otherwise capable of being predicted with a high degree of certainty.
- (4) For this purpose any provision of a qualifying public contract (however expressed) that adjusts the amount of a receipt for changes in the general level of prices or earnings is to be ignored.
- (5) A “qualifying public contract” means –
 - (a) a contract entered into with a relevant public body, or
 - (b) a contract which is entered into following a tendering or procurement exercise conducted by a relevant public body.
- (6) If a qualifying old loan relationship is amended after 12 May 2016 so as to increase the amount lent or extend the period for which the relationship is to subsist –
 - (a) section 431 is to have effect as if none of those amendments were made (and, accordingly, the exemption under that section has no effect in relation to the increase in the amount or the period of the extension), and
 - (b) such apportionments of amounts in respect of the relationship are to be made as are just and reasonable.

- (7) If, in the case of a loan relationship to which a qualifying infrastructure company is a party at any time, the condition in subsection (1)(b) would not have been met if it is assumed –
- (a) that the assets held by the company at that time were the only assets that the company held on 12 May 2016, and
 - (b) that a qualifying infrastructure receipt could not be regarded as highly predictable if, on 12 May 2016, the public infrastructure asset in question did not exist or was not in the course of being constructed or converted,
- the loan relationship is not a qualifying old loan relationship of the company at that or any subsequent time.
- (8) If a company is not a qualifying infrastructure company in an accounting period, a loan relationship is not a qualifying old loan relationship of the company at any time in that or any subsequent accounting period.
- (9) For the purposes of this section the value of a receipt on 12 May 2016 is taken to be its present value on that date, discounted using a rate that can reasonably be regarded as one that, in accordance with normal commercial criteria, is appropriate for the purpose.
- (10) In this section “receipts” means receipts of a revenue nature.

433 Loans etc made by qualifying infrastructure companies to be ignored

- (1) This section applies where –
- (a) a company is a qualifying infrastructure company throughout an accounting period, and
 - (b) the company would (but for this section) have had tax-interest income amounts in the accounting period.
- (2) For the purposes of this Part, the company is treated as if it did not have any tax-interest income amounts in the accounting period.

434 Tax-EBITDA of qualifying infrastructure company to be nil

- (1) This section applies where a company is a qualifying infrastructure company throughout an accounting period.
- (2) For the purposes of this Part, the tax-EBITDA of the company for the accounting period is nil.

435 Amounts of qualifying infrastructure company left out of account for other purposes

- (1) This section applies where a company is a qualifying infrastructure company throughout an accounting period.
- (2) In calculating –
- (a) the adjusted net group-interest expense of the worldwide group for the period of account concerned, or
 - (b) the qualifying net group-interest expense of the worldwide group for the period of account concerned,
- amounts that are exempt amounts of the company under section 431, or are treated as mentioned in section 433, are to be left out of account.

- (3) For the purposes of this Part the group EBITDA of the worldwide group for the period of account concerned is to be calculated as if the group did not include the company.

436 Interest capacity for group with qualifying infrastructure company

- (1) This section applies for the purpose of calculating the interest capacity of a worldwide group for a period of account where –
 - (a) the group includes a company which is a qualifying infrastructure company at any time in the period, and
 - (b) the group would be subject to interest restrictions in the period if this Part did not contain section 392(2) and (3) (“the de minimis provisions”).
- (2) The general rule is that the interest capacity of the worldwide group for the period is calculated as if this Part did not contain the de minimis provisions.
- (3) But this is subject to an exception that depends on the following comparison.
- (4) The following amounts must be compared with each other –
 - (a) the total disallowed amount of the group in the period calculated as if this Chapter (including subsections (1) and (2) of this section but ignoring the remainder of it) were contained in this Part (“the Chapter 8 amount”), and
 - (b) the total disallowed amount of the group in the period calculated as if this Chapter were not contained in this Part (“the ordinary amount”).
- (5) If the Chapter 8 amount exceeds the ordinary amount, the interest capacity of the worldwide group for the period is calculated as if this Chapter were not contained in this Part.

Supplementary

437 Decommissioning

- (1) This Chapter applies in relation to an activity consisting of the decommissioning of a public infrastructure asset as it applies in relation to its provision.
- (2) In determining whether a company is a qualifying infrastructure company the following assets of the company are ignored (and the income arising from them is, accordingly, also ignored) –
 - (a) any shares in a decommissioning fund, and
 - (b) any loan relationships or other financing arrangements to which a decommissioning fund is party.
- (3) A “decommissioning fund” means a company which –
 - (a) holds particular investments for the sole purpose of funding the decommissioning of public infrastructure assets, and
 - (b) is prevented from using the proceeds of the investments, or the income arising from them, for any other purpose.
- (4) In this section “decommissioning” includes demolishing and putting out of use.

438 Minor definitions for purposes of this Chapter

- (1) For the purposes of this Chapter –
 - “balance sheet” means a balance sheet that is drawn up in accordance with generally accepted accounting practice,
 - “financial asset” has the same meaning as it has for accounting purposes, and
 - “loan relationships or other financing arrangements” means –
 - (a) loan relationships,
 - (b) derivative contracts in relation to which the condition in section 387(4) is met (underlying subject matter to be interest rates etc),
 - (c) finance leases, or
 - (d) debt factoring or similar transactions.
- (2) For the purposes of this Chapter references to a company which is “associated” with another company at any time are references to companies that are members of the same worldwide group at that time.
- (3) For the purposes of this Chapter the definition of “relevant public body” given by section 472 applies as if the definition included, in relation to any body mentioned in subsection (1) of that section, wholly-owned subsidiaries of the body (as defined in section 1159(2) of the Companies Act 2006).

CHAPTER 9

CASES INVOLVING PARTICULAR TYPES OF COMPANY OR BUSINESS

*Oil and gas***439 Oil and gas**

- (1) For the purposes of this Part any amount which is, or is taken into account in calculating –
 - (a) the ring fence income of a company within the meaning of section 275 of CTA 2010, or
 - (b) a company’s aggregate gain or loss under section 197(3) of TCGA 1992,
 is to be ignored.
- (2) For the purpose of applying subsection (1) in relation to the financial statements of a worldwide group of which the company is a member such adjustments are to be made to those statements as are just and reasonable.

*REITs***440 Real Estate Investment Trusts**

- (1) This section applies if a company (a “property rental business company”) –

- (a) is a company which has profits for an accounting period which are not charged to corporation tax as a result of section 534(1) or (2) of CTA 2010, or
 - (b) is a company to which gains accrue in an accounting period that are not chargeable gains as a result of section 535(1) or (5) of CTA 2010.
- (2) In this section “the residual business company” means the company which –
 - (a) so far as it carries on residual business, is treated, as a result of section 541 of CTA 2010, as a separate company distinct from the property rental business company, but
 - (b) ignoring that section, is in fact the same company as the property rental business company.
- (3) In applying the provisions of this Part –
 - (a) the property rental business company and the residual business company are at all times to be regarded as separate members of the same worldwide group (despite the provisions of section 541(3) of CTA 2010), but
 - (b) in the case of the application of section 427 (qualifying infrastructure company), the property rental business company and the residual business company are to be regarded as being one company (and any election (or its revocation) is, therefore, regarded as made by each company).
- (4) This Part has effect as if –
 - (a) section 534(1) and (2) of CTA 2010, and
 - (b) section 535(1) and (5) of CTA 2010,
 do not apply in relation to the property rental business company for the accounting period.
- (5) The allocated disallowance for the property rental business company (if any) for the accounting period must be limited to such amount as secures that section 530(3)(b) or (5) of CTA 2010 (distribution of profits not required if would result in unlawful distribution) do not apply.
- (6) This subsection –
 - (a) sets out steps to be taken in order to facilitate the operation of Chapter 2 (disallowance and reactivation of tax-interest expense amounts), and
 - (b) has effect in relation to an accounting period of the residual business company whether or not it has net tax-interest expense referable to that period.

If the residual business company does not have net tax-interest expense referable to that period, it is treated for the purposes of steps 1 to 4 in the rest of this subsection as if it had instead a nil amount of tax-interest expense referable to that period.

Step 1

Determine the maximum amount that could be the allocated disallowance for the property rental business company for the accounting period if subsection (5) were ignored and the maximum

amount that could be the allocated disallowance for the residual business company for the accounting period (ignoring step 5).

The sum of those maximum amounts is referred to in this subsection as “the total REIT expenses”.

Step 2

Determine the amount (if any) that is the allocated disallowance for the property rental business for the accounting period, applying subsection (5) and all other rules in this Part.

This amount is referred to in this subsection as “the actual disallowed amount”.

Step 3

Deduct from the total REIT expenses the actual disallowed amount.

Step 4

Determine whether so much of the total REIT expenses as remains after step 3 exceeds the net tax-interest expense of the residual business company referable to the accounting period (ignoring step 5).

Step 5

If the application of step 4 produces an excess, the residual business company is required to bring into account in the accounting period matching tax-interest expense and income amounts in accordance with the following provisions of this section.

- (7) The residual business company –
 - (a) must bring a tax-interest expense amount equal to the excess into account in the accounting period, and
 - (b) must bring a tax-interest income amount equal to the excess into account in the accounting period,
 but nothing in this subsection affects any calculation required under any other provision of this Part in relation to the accounting period of the residual business company.
- (8) The bringing into account of a tax-interest expense amount under subsection (7) is subject to the operation of the other provisions of this Part (which may result in some or all of the amount not being brought into account).
- (9) The tax-interest expense amount under subsection (7) must be matched in amount and nature to an amount comprised in the total REIT expenses.
Section 377(2) to (4) (which, subject to an election made by the company, set out the order in which amounts are left out of account) apply for the purposes of this subsection.
- (10) The tax-interest expense or income amounts under subsection (7) are treated as being of the same nature as each other.
- (11) An interest restriction return –
 - (a) must, in relation to any company carrying on residual business or property rental business, specify that fact, and
 - (b) must contain information about how the return has taken into account the effect of this section.

- (12) Expressions which are used in this section and in Part 12 of CTA 2010 have the same meaning in this section as they have in that Part.

Insurance companies

441 Insurance companies

- (1) This section applies where –
- (a) an insurance entity is a member of a worldwide group,
 - (b) the entity has a subsidiary (“S”) which it holds as a portfolio investment, and
 - (c) apart from this section, S would be a member of the group.
- (2) For the purposes of this Part –
- (a) the group does not include S (or its subsidiaries), and
 - (b) accordingly, none of those entities is regarded as a consolidated subsidiary of any member of the group.
- (3) For the purposes of this section an insurance entity holds an interest in an entity as “a portfolio investment” if –
- (a) the insurance entity holds the interest as an investment, and
 - (b) the insurance entity judges the value that the interest has to it wholly or mainly by reference to the market value of the interest.
- (4) In this section –
- “insurance entity” means –
 - (a) an insurance company,
 - (b) a friendly society within the meaning of Part 3 of FA 2012 (see section 172), or
 - (c) a body corporate which carries on underwriting business as a member of Lloyd’s, and
 - “subsidiary” has the meaning given by international accounting standards.

Fair value accounting

442 Creditor relationships of companies determined on basis of fair value accounting

- (1) A company may elect for all of its creditor relationships which are dealt with in the company’s accounts on the basis of fair value accounting (“fair-value creditor relationships”) to be subject to the provision made by this section for all of its accounting periods.
- (2) For the purpose of calculating under this Part –
- (a) tax-interest expense amounts of the company, and
 - (b) tax-interest income amounts of the company,
- the relevant loan relationship debits and relevant loan relationship credits in respect of the company’s fair-value creditor relationships are instead to be determined for the accounting periods on an amortised cost basis of accounting.
- (3) If –

- (a) a company has a hedging relationship between a relevant contract (“the hedging instrument”) and the asset representing a loan relationship subject to the election, and
- (b) the loan relationship is dealt with in the company’s accounts on the basis of fair value accounting,

it is to be assumed in applying the amortised cost basis of accounting that the hedging instrument has where possible been designated for accounting purposes as a fair value hedge of the loan relationship.

- (4) An election under this section –
 - (a) must be made before the end of 12 months from the end of the relevant accounting period,
 - (b) has effect for that accounting period and all subsequent accounting periods, and
 - (c) is irrevocable.
- (5) For this purpose “relevant accounting period” means –
 - (a) the first accounting period in which the company has a fair-value creditor relationship, or
 - (b) if that accounting period has ended before 1 April 2017, the first accounting period in relation to which any provision of this Part applies.
- (6) If –
 - (a) a company which has made an election under this section is the transferor in relation to a fair-value creditor relationship for the purposes of a case mentioned in section 336 or 337 of CTA 2009 (transfers of loans on group transactions or on insurance business transfers), but
 - (b) the company which is the transferee for those purposes has not made an election under this section,

the transferee is treated as if it had made an election under this section which has effect in relation to that creditor relationship for the accounting period in which the transfer takes place and all subsequent accounting periods.
- (7) If –
 - (a) a company which has not made an election under this section is the transferor in relation to a fair-value creditor relationship for the purposes of a case mentioned in section 336 or 337 of CTA 2009, but
 - (b) the company which is the transferee for those purposes has made an election under this section,

the election made by the transferee has no effect in relation to that creditor relationship for the accounting period in which the transfer takes place and all subsequent accounting periods.
- (8) Expressions which are used in this section and in Part 5 of CTA 2009 have the same meaning in this section as they have in that Part.

443 Elections under section 442: deemed debits and credits

- (1) This section applies if –

- (a) as a result of an election under section 442, the tax-interest expense amounts of a company include notional debits for an accounting period,
 - (b) the worldwide group of which the company is a member is subject to interest restrictions for a period of account, and
 - (c) the total disallowed amount for the period of account consists of or includes the notional debits.
- (2) In order to facilitate the operation of Chapter 2 (disallowance and reactivation of tax-interest expense amounts) –
- (a) the company must bring a debit equal to the amount of the notional debits into account in the accounting period, and
 - (b) the company must bring a credit equal to the amount of the notional debits into account in the accounting period,
- but nothing in this subsection affects any calculation required under any other provision of this Part in relation to the accounting period of the company.
- (3) The bringing into account of a debit under subsection (2)(a) is subject to the operation of the other provisions of this Part (which may result in some or all of the debit not being brought into account).
- (4) The debits and credits under subsection (2) are of the same nature as the notional debits that give rise to them.
- (5) For the purposes of this section a debit is a “notional debit” if the debit is created as a result of the determination required by the election or so far as the amount of the debit is increased as a result of that determination.

Exemption for tax-interest expense or income amounts

444 Co-operative and community benefit societies etc

- (1) This section applies where –
- (a) apart from this section, an amount would be a tax-interest expense amount or tax-interest income amount of a company as a result of meeting condition A in section 382 or 385 (loan relationships), and
 - (b) the amount meets that condition only because of section 499 of CTA 2009 (certain sums payable by co-operative and community benefit societies or UK agricultural or fishing co-operatives treated as interest under loan relationship).
- (2) The amount is treated as not being a tax-interest expense amount or tax-interest income amount of the company.

445 Charities

- (1) This section applies where –
- (a) apart from this section, an amount (“the relevant amount”) would be a tax-interest expense amount of a company as a result of meeting condition A in section 382 (loan relationship debits),
 - (b) the creditor is a charity,
 - (c) the company is wholly owned by the charity, and

-
- (d) the charitable gift condition is met at all times during the accounting period in which the relevant amount is (or apart from this Part would be) brought into account.
 - (2) The relevant amount is treated as not being a tax-interest expense amount of the company.
 - (3) For the purposes of this section the “charitable gift condition” is met at any time at which, were the company to make a donation to the charity at that time, it would be a qualifying charitable donation (see section 190 of CTA 2010).
 - (4) In this section “the creditor” means the person who is party to the loan relationship in question as creditor.
 - (5) The following provisions apply for the purposes of this section—
 - (a) section 200 of CTA 2010 (company wholly owned by a charity);
 - (b) section 202 of that Act (meaning of “charity”).

Leases

446 Long funding operating leases and certain finance leases

- (1) In calculating a company’s adjusted corporation tax earnings for an accounting period under section 402(2), each of the following amounts is to be ignored—
 - (a) the amount of a deduction under section 363 of CTA 2010 (lessor under long funding operating lease);
 - (b) the amount by which a deduction is reduced under section 379 of CTA 2010 (lessee under long funding operating lease);
 - (c) the capital component of the company’s rental earnings under a finance lease which is not a long funding finance lease;
 - (d) the amount of depreciation in respect of any asset leased to the company under a finance lease which is not a long funding finance lease.
- (2) For the purposes of subsection (1)(c) the capital component of a company’s rental earnings under a finance lease is so much of those earnings as do not constitute tax-interest income amounts of the company.
- (3) For the purposes of subsection (1)(d) the amount of depreciation in respect of any asset leased to the company under a finance lease is the amount which, in accordance with generally accepted accounting practice, falls (or would fall) to be shown in the company’s accounts as depreciation in respect of the asset.
- (4) In this section—
 - “finance lease”, in relation to a company, means a lease that, in accordance with generally accepted accounting practice, falls (or would fall) to be treated as a finance lease or loan in the company’s accounts;

“long funding finance lease” means a finance lease which is a long funding lease (within the meaning of section 70G of CAA 2001).

CHAPTER 10

ANTI-AVOIDANCE

447 Counteracting effect of avoidance arrangements

- (1) Any tax advantage that would (in the absence of this section) arise from relevant avoidance arrangements are to be counteracted by the making of such adjustments as are just and reasonable in relation to amounts to be left out of account or brought into account under this Part.
- (2) Any adjustments required to be made under this section (whether or not by an officer of Revenue and Customs) may be made by way of an assessment, the modification of an assessment, amendment or disallowance of a claim or otherwise.
- (3) In this section “arrangements” include any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).
- (4) For the purposes of this section arrangements are “relevant avoidance arrangements” if conditions A and B are met.
- (5) Condition A is that the main purpose, or one of the main purposes, of the arrangements is to enable a company to obtain a tax advantage.
- (6) Condition B is that the tax advantage is attributable (or partly attributable) to any company –
 - (a) not leaving tax-interest expense amounts out of account that it otherwise would have left out of account,
 - (b) leaving tax-interest expense amounts out of account that are lower than they otherwise would have been,
 - (c) leaving tax-interest expense amounts out of account in an accounting period other than that in which it otherwise would have left them out of account,
 - (d) bringing tax-interest expense amounts into account that it otherwise would not have brought into account,
 - (e) bringing tax-interest expense amounts into account that are higher than they otherwise would have been, or
 - (f) bringing tax-interest expense amounts into account in an accounting period other than that in which it otherwise would have brought them into account.
- (7) In subsection (6) –
 - (a) references to leaving amounts out of account are to leaving them out of account under this Part;
 - (b) references to bringing amounts into account are to bringing them into account under this Part.

- (8) Arrangements are not “relevant avoidance arrangements” if the obtaining of any tax advantages that would otherwise arise from them can reasonably be regarded as arising wholly from commercial restructuring arrangements entered into in connection with the commencement of this Part.
- (9) For this purpose “commercial restructuring arrangements” means –
- (a) arrangements that, but for this Part, would have resulted in significantly more corporation tax becoming payable as a result of one or more loan relationships being brought within the charge to corporation tax, or
 - (b) arrangements that –
 - (i) are designed to secure, in a way that is wholly consistent with its policy objectives, the benefit of a relief expressly conferred by a provision of this Part, and
 - (ii) are effected by taking only ordinary commercial steps in accordance with a generally prevailing commercial practice.
- (10) In this section “tax advantage” has the meaning given by section 1139 of CTA 2010.

CHAPTER 11

INTERPRETATION ETC

Related parties

448 Expressions relating to “related parties”: introduction

- (1) Section 449 sets out the circumstances in which a person is a related party of another person for the purposes of this Part.
- (2) That section –
 - (a) applies generally in relation to any amount, and
 - (b) is supplemented by sections 450 and 451 (which contain provisions that have effect for the purposes of that section).
- (3) Sections 452 and 453 make provision for treating persons as if they were related parties of each other but only in relation to certain matters.
- (4) Sections 454 to 456 –
 - (a) make provision for treating persons as if they were not related parties of each other but only in relation to certain matters, but
 - (b) have effect subject to sections 452 and 453.

449 Whether a person is generally a “related party” of another

- (1) For the purposes of this Part a person (“A”) is a “related party” of another person (“B”) –
 - (a) throughout any period for which A and B are consolidated for accounting purposes,

- (b) on any day on which the participation condition is met in relation to them, or
 - (c) on any day on which the 25% investment condition is met in relation to them.
- (2) A and B are consolidated for accounting purposes for a period if –
- (a) their financial results for a period are required to be comprised in group accounts,
 - (b) their financial results for the period would be required to be comprised in group accounts but for the application of an exemption, or
 - (c) their financial results for a period are in fact comprised in group accounts.
- (3) In subsection (2) “group accounts” means accounts prepared under –
- (a) section 399 of the Companies Act 2006, or
 - (b) any corresponding provision of the law of a territory outside the United Kingdom.
- (4) The participation condition is met in relation to A and B (“the relevant parties”) on a day if, within the period of 6 months beginning or ending with that day –
- (a) one of the relevant parties directly or indirectly participates in the management, control or capital of the other, or
 - (b) the same person or persons directly or indirectly participate in the management, control or capital of each of the relevant parties.
- (5) For the interpretation of subsection (4), see sections 157(1), 158(4), 159(1) and 160(1) (which have the effect that references in that subsection to direct or indirect participation are to be read in accordance with provisions of Chapter 2 of Part 4).
- (6) The 25% investment condition is met in relation to A and B if –
- (a) one of them has a 25% investment in the other, or
 - (b) a third person has a 25% investment in each of them.
- (7) Sections 450 and 451 apply for the purpose of determining whether a person has a “25% investment” in another person.

450 Meaning of “25% investment” in a company or other person

- (1) A person (“P”) has a 25% investment in a company (“C”) if –
- (a) P possesses or is entitled to acquire 25% or more of the share capital or issued share capital of C,
 - (b) P possesses or is entitled to acquire 25% or more of the voting power in C, or
 - (c) if the whole of C’s share capital were disposed of, P would receive (directly or indirectly and whether at the time of disposal or later) 25% or more of the proceeds of the disposal.
- (2) A person (“P”) has a 25% investment in another person (“Q”) if –
- (a) in the event that the whole of Q’s income were distributed, P would receive (directly or indirectly and whether at the time

- of distribution or later) 25% or more of the distributed amount, or
- (b) in the event of a winding-up of Q or in any other circumstances, P would receive (directly or indirectly and whether or not at the time of the winding-up or other circumstances or later) 25% or more of Q's assets which would then be available for distribution.
- (3) If a person carrying on a business of banking has in the ordinary course of that business lent any money to Q, subsection (2) is to have effect as if that money had not been lent.
- (4) In this section references to a person receiving any proceeds, amount or assets include references to the proceeds, amount or assets being applied (directly or indirectly) for that person's benefit.
- (5) Any reference in this section, in the case of a person who is a member of a partnership, to the proceeds, amount or assets of the person includes the person's share of the proceeds, amount or assets of the partnership (apportioning those things between the partners on a just and reasonable basis).

451 Attribution of rights and interests

- (1) In determining for the purposes of section 450 the investment that a person ("P") has in another person, P is to be taken to have all of the rights and interests of –
- (a) any person connected with P,
 - (b) any person who is a member of a partnership, or is connected with a person who is member of a partnership, of which P is a member, or
 - (c) any person who is a member of a partnership, or is connected with a person who is a member of a partnership, of which a person connected with P is a member.
- (2) For the purposes of subsection (1), section 1122 of CTA 2010 ("connected" persons) applies but as if subsections (7) and (8) of that section were omitted.
- (3) In determining for the purposes of section 450 the investment that a person ("P") has in another person ("U"), P is to be taken to have all of the rights and interests of a third person ("T") with whom P acts together in relation to U.
- (4) For this purpose P "acts together" with T in relation to U if (and only if) –
- (a) for the purpose of influencing the conduct of U's affairs –
 - (i) P is able to secure that T acts in accordance with P's wishes (or vice versa), or
 - (ii) T can reasonably be expected to act, or typically acts, in accordance with P's wishes (or vice versa),
 - (b) P and T are party to an arrangement that it is reasonable to conclude is designed to affect the value of any of T's rights or interests in relation to U, or
 - (c) the same person manages some or all of both P's and T's rights or interests in relation to U.

- (5) But P does not “act together” with T in relation to U under subsection (4)(c) if—
 - (a) the managing person does so as the operator of different collective investment schemes, and
 - (b) the management of the schemes is not coordinated for the purpose of influencing the conduct of U’s affairs.
- (6) For this purpose “collective investment scheme” and “operator” have the same meaning as in Part 17 of the Financial Services and Markets Act 2000 (see sections 235 and 237).
- (7) In determining for the purposes of section 450 the investment that a person (“P”) has in another person (“U”), P is to be taken to have all of the rights and interests of one or more third persons with whom P has entered into a qualifying arrangement in relation to U.
- (8) For this purpose P has entered into a qualifying arrangement with one or more third persons in relation to U if they are parties to an arrangement concerning U as a result of which, by reference to shares held, or to be held, by any one or more of them in U, they can reasonably be expected to act together—
 - (a) so as to exert greater influence in relation to U than any one of them would be able to exert if acting alone, or
 - (b) otherwise so as to be able to achieve an outcome in relation to U that, if attempted by any one of them acting alone, would be significantly more difficult to achieve.
- (9) For this purpose the reference to shares in U includes shares in U that may be held as a result of the exercise of any right or power and includes rights or interests in U that are of a similar character to shares.
- (10) In this section “arrangement” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).

452 Certain loan relationships etc to be treated as made between related parties

- (1) This section—
 - (a) makes provision for treating a person (“D”) who is not a related party of another person (“C”) as if they were related parties of each other but only in respect of particular liabilities or transactions, and
 - (b) is expressed to apply in relation to loan relationships but also applies (with any necessary modifications) in relation to any other financial liability owed to, or any transaction with, C.
- (2) If—
 - (a) D is party to a loan relationship as debtor and C is party to the relationship as creditor, and
 - (b) another person (“G”) who is a related party of D provides a guarantee, indemnity or other financial assistance in respect of the liability of D that represents the loan relationship,

D and C are treated for the purposes of this Part as if, in relation to the loan relationship concerned (and anything done under or for the purposes of it), they were related parties of each other.

- (3) Subsection (2) is subject to section 431(3) (infrastructure: interest payable to third parties etc).
- (4) If—
 - (a) D is party to a loan relationship as debtor and C is party to the relationship as creditor, and
 - (b) another person (“G”) who is a related party of D indirectly stands in the position of a creditor as respects the debt in question by reference to a series of loan relationships or other arrangements,

D and C are treated for the purposes of this Part as if, in relation to the loan relationship concerned (and anything done under or for the purposes of it), they were related parties of each other.
- (5) For the purposes of this section a person who is not a company is regarded as being a party to a loan relationship as creditor if the person would be so regarded for the purposes of Part 5 of CTA 2009 if the person were a company.
- (6) For the purposes of this section “arrangements” include any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).

453 Holdings of debt and equity in same proportions

- (1) This section applies where—
 - (a) persons have lent money to another person (“U”),
 - (b) the lenders also have shares or voting power in U,
 - (c) the amounts each of the lenders has lent stand in the same, or substantially the same, proportion as the shares or voting power in U that each of them has, and
 - (d) for the purposes of section 450 the lenders (taken together) have a 25% investment in U.
- (2) The lenders are treated for the purposes of this Part as if, in relation to the loans (and anything done under or for the purposes of them), they were related parties of U (so far as that would not otherwise be the case).
- (3) If a lender transfers some or all of the rights under the loan to another person, the transferee is treated for the purposes of this Part as if, in relation to the loan (and anything done under or for the purposes of it), the transferee were a related party of U (so far as that would not otherwise be the case).
- (4) This applies whether or not the transferee has any shares or voting power in U.
- (5) For the purposes of this section references to shares in U include shares in U that may be held as a result of the exercise of any right or power and include rights or interests in U that are of a similar character to shares.

- (6) This section applies (with any necessary modifications) in relation to any other financial liability owed to, or any transaction with, U as it applies to loans made to U.

454 Debts with same rights where unrelated parties hold more than 50%

- (1) This section applies if –
- (a) a person (“D”) is party to a loan relationship as debtor in a period of account of a worldwide group of which it is a member,
 - (b) a person (“C”) who is party to the loan relationship as creditor is a related party of D at any time in that period,
 - (c) there are persons (“the relevant creditors”) other than C who are parties to the loan relationship, or are parties to other loan relationships entered into at the same time, as creditors but who are not related parties of D at any time in that period,
 - (d) at all times in that period the rights of the relevant creditors are rights in relation to at least 50% of the total amount of the money debt or debts in question, and
 - (e) at all times in that period C and the relevant creditors have the same rights in relation to the money debt or debts in question.
- (2) D and C are treated for the purposes of this Part as if, in relation to the loan relationship concerned (and anything done under or for the purposes of it), they were not related parties of each other at any time in that period.
- (3) Persons are not to be regarded as having the same rights in relation to a money debt or debts at any time if –
- (a) the terms or conditions on which any of the money is lent and which are in force at that time make different provision in relation to different persons or have, or are capable of having, a different effect in relation to different persons (whether at that or any subsequent time),
 - (b) arrangements are in place at that time the effect of which is that, at that or any subsequent time, the rights of some persons in relation to any of the debts differ, or will or may differ, from the rights of others in relation to any of the debts, or
 - (c) any other circumstances exist at that time as a result of which the rights of some persons in relation to any of the debts cannot reasonably be regarded as being, in substance, the same rights as others in relation any of the debts at that or any subsequent time.
- (4) For the purposes of this section –
- (a) a person who is not a company is regarded as being a party to a loan relationship as creditor if the person would be so regarded for the purposes of Part 5 of CTA 2009 if the person were a company,
 - (b) “rights” includes powers,
 - (c) “different persons” includes persons of a different class or description, and

- (d) “arrangements” include any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).

455 Loans made by banks

- (1) This section applies where –
- (a) a person (“B”) carrying on a business of banking lends money to a person (“P”) in the ordinary course of that business,
 - (b) B is a related party of P, and
 - (c) the loan was made in circumstances where B was not aware, and could not reasonably have been expected to have been aware, of the facts that result in B and P being related parties of each other.
- (2) B and P are treated for the purposes of this Part as if, in relation to the loan (and anything done under or for the purposes of it), they were not related parties of each other.

456 Loans made by relevant public bodies

- (1) This section applies where –
- (a) a relevant public body (“B”) lends money to a person (“P”),
 - (b) B is a related party of P,
 - (c) there is statutory provision preventing P from borrowing money from anyone other than B or another relevant public body, and
 - (d) the loan is made by B wholly for public purposes and not for its own profit.
- (2) B and P are treated for the purposes of this Part as if, in relation to the loan (and anything done under or for the purposes of it), they were not related parties of each other.
- (3) In this section “statutory provision” means provision made by –
- (a) an enactment contained in, or in an instrument made under, an Act of Parliament,
 - (b) an enactment contained in, or in an instrument made under, an Act of the Scottish Parliament,
 - (c) an enactment contained in, or in an instrument made under, a Measure or Act of the National Assembly for Wales, or
 - (d) an enactment contained in, or in an instrument made under, Northern Ireland legislation.

Determining the worldwide group

457 Meaning of “a worldwide group”, “ultimate parent” etc

- (1) In this Part “a worldwide group” means –
- (a) any entity which –
 - (i) is a relevant entity (see section 458), and
 - (ii) meets the condition in subsection (2), and
 - (b) each consolidated subsidiary (if any) of the entity mentioned in paragraph (a).

- (2) The condition is that the entity –
 - (a) is a member of an IAS group and is not a consolidated subsidiary of a relevant entity, or
 - (b) is not a member of an IAS group.
- (3) In this Part –
 - (a) references to “a member” of a worldwide group are to an entity mentioned in subsection (1)(a) or (b);
 - (b) references to “the ultimate parent” of a worldwide group are to the entity mentioned in subsection (1)(a);
 - (c) references to “a single-company worldwide group” are to a worldwide group whose only member is its ultimate parent;
 - (d) references to “a multi-company worldwide group” are to a worldwide group with two or more members.
- (4) In this section “IAS group” means a group within the meaning given by international accounting standards.

458 Interpretation of section 457: “relevant entity”

- (1) In section 457 “relevant entity” means (subject to subsection (7)) an entity in relation to which condition A, B or C is met.
- (2) Condition A is that the entity is a body corporate other than –
 - (a) a limited liability partnership in relation to which section 1273(1) of CTA 2009 (limited liability partnerships) applies, or
 - (b) an entity formed under the law of a territory outside the United Kingdom which would be a partnership if formed under the law of any part of the United Kingdom.
- (3) Condition B is that the amount of profits to which each person who has an interest in the entity is entitled depends upon a decision that –
 - (a) is taken by the entity or members of the entity, and
 - (b) is taken after the period in which the profits arise.
- (4) For the purposes of subsection (3) a person “has an interest in the entity” if the person holds shares, or other interests in the entity, which entitle the person to a share of the profits of the entity.
- (5) Condition C is that –
 - (a) shares or other interests in the entity are listed on a recognised stock exchange, and
 - (b) the shares or other interests in the entity are sufficiently widely held.
- (6) For the purposes of subsection (5) shares or other interests in an entity are “sufficiently widely held” if no participator in the entity holds more than 10% by value of all the shares or other interests in the entity.
- (7) The following are not relevant entities –
 - (a) the Crown,
 - (b) a Minister of the Crown,
 - (c) a government department,

- (d) a Northern Ireland department, or
 - (e) a foreign sovereign power.
- (8) Section 454 of CTA 2010 (meaning of participator) applies for the purposes of this section.

459 Meaning of “non-consolidated subsidiary” and “consolidated subsidiary”

- (1) For the purposes of this Chapter, an entity (“X”) is a “non-consolidated subsidiary” of another entity (“Y”) at any time (“the relevant time”) if conditions A and B are met.
- (2) Condition A is that X is a subsidiary of Y at the relevant time.
- (3) Condition B is that, if Y were required at the relevant time to measure its investment in X, it would be required to do so at fair value through profit or loss.
- (4) For the purposes of this Chapter, an entity (“X”) is a “consolidated subsidiary” of another entity (“Y”) at any time if, at that time, X is a subsidiary, but not a non-consolidated subsidiary, of Y.
- (5) In this section “subsidiary” has the meaning given by international accounting standards.
- (6) For the purposes of this section, assume that all entities are subject to international accounting standards.

460 Continuity of identity of a worldwide group through time

- (1) This section applies for the purpose of determining whether a group of entities that constitutes a worldwide group at any time (“Time 2”) is the same worldwide group as a group of entities that constitutes a worldwide group at an earlier time (“Time 1”).
- (2) The group at Time 2 is the same worldwide group as the group at Time 1 if and only if the entity that is the ultimate parent of the group at Time 2 –
 - (a) was the ultimate parent of the group at Time 1, and
 - (b) was the ultimate parent of a worldwide group at all times between Time 1 and Time 2.

461 Treatment of stapled entities

- (1) This section applies where two entities –
 - (a) would, apart from this section, each be the ultimate parent of a worldwide group, and
 - (b) are stapled to each other.
- (2) This Part has effect as if –
 - (a) the two entities were consolidated subsidiaries of another entity (the “deemed parent”), and
 - (b) the deemed parent fell within section 457(1)(a) (conditions for being the ultimate parent of a worldwide group).
- (3) For the purpose of this section an entity (“entity A”) is “stapled” to another entity (“entity B”) if, in consequence of the nature of the rights attaching to the shares or other interests in entity A (including

any terms or conditions attaching to the right to transfer the interests), it is necessary or advantageous for a person who has, disposes of or acquires shares or other interests in entity A also to have, dispose of or acquire shares or other interests in entity B.

462 Treatment of business combinations

- (1) This section applies where two entities –
 - (a) would, apart from this section, each be the ultimate parent of a worldwide group, and
 - (b) are treated under international accounting standards as a single economic entity by reason of being a business combination achieved by contract.
- (2) This Part has effect as if –
 - (a) the two entities were consolidated subsidiaries of another entity (the “deemed parent”), and
 - (b) the deemed parent fell within section 457(1)(a) (conditions for being the ultimate parent of a worldwide group).
- (3) In this section “business combination” has the meaning given by international accounting standards.

Expressions relating to financial statements

463 “Financial statements” of a worldwide group and “period of account” of a worldwide group

- (1) References in this Part to “financial statements” of a worldwide group for a period are (subject to subsection (2)) to consolidated financial statements of the worldwide group’s ultimate parent and its subsidiaries in respect of the period.
- (2) Where the worldwide group is at all times during the period a single-company worldwide group, the references are to financial statements of the ultimate parent in respect of the period.
- (3) The basic rule is that the references mentioned in subsections (1) and (2) are to financial statements that are in fact drawn up by or on behalf of the ultimate parent.
- (4) But see –
 - (a) section 464 for provision under which, in certain circumstances, financial statements are treated as having been drawn up in accordance with different accounting standards from those in accordance with which they are in fact drawn up;
 - (b) section 465 for provision under which, in certain circumstances, financial statements are treated as consolidating different subsidiaries from those in fact consolidated;
 - (c) section 466 for provision under which, in certain circumstances, financial statements are treated as having been drawn up in respect of different periods from those in respect of which they are in fact drawn up;

- (d) sections 467 and 468 for provision under which, where financial statements are not in fact drawn up, financial statements are treated as having been drawn up.
- (5) References in this Part to a “period of account” of a worldwide group are to –
 - (a) a period in respect of which financial statements of the group are in fact drawn up by or on behalf of the ultimate parent, or
 - (b) in a case to which section 466, 467 or 468 applies, a period in respect of which financial statements are treated as drawn up under that section.

464 Actual financial statements not acceptable: IAS financial statements treated as drawn up

- (1) This section applies if financial statements of a worldwide group for a period of account are not acceptable.
- (2) For the purposes of this Part (apart from this section) –
 - (a) the financial statements mentioned in subsection (1) are treated as not having been drawn up, and
 - (b) IAS financial statements of the worldwide group are treated as having been drawn up in respect of the period.
- (3) For the purposes of this section financial statements are “acceptable” only if condition A, B, C or D is met.
- (4) Condition A is that the financial statements are IAS financial statements.
- (5) Condition B is that the amounts recognised in the financial statements are not materially different from those that would be recognised in IAS financial statements of the worldwide group, if such statements were drawn up.
- (6) Condition C is that the financial statements are drawn up in accordance with UK generally accepted accounting practice.
- (7) Condition D is that the financial statements are drawn up in accordance with generally accepted accounting principles and practice of one of the following territories –
 - (a) Canada;
 - (b) China;
 - (c) India;
 - (d) Japan;
 - (e) South Korea;
 - (f) the United States of America.
- (8) The Commissioners may by regulations amend this paragraph so as to alter the circumstances in which financial statements mentioned in subsection (1) are acceptable for the purposes of this section.

465 Financial statements not consolidating subsidiaries in accordance with IAS treated as adjusted

- (1) The section applies where financial statements of a worldwide group for a period –

- (a) do not consolidate one or more entities that are IAS subsidiaries, or
 - (b) consolidate one or more entities that are not IAS subsidiaries.
- (2) In this section “IAS subsidiary”, in relation to a period, means an entity which would be required to be consolidated with those of the ultimate parent in IAS financial statements of the group for the period.
- (3) For the purposes of this Part (apart from this section), the financial statements mentioned in subsection (1) are treated as if –
 - (a) they did consolidate the results of the entity or entities (if any) mentioned in subsection (1)(a), and
 - (b) they did not consolidate the results of the entity or entities (if any) mentioned in subsection (1)(b).
- (4) In this section a reference to financial statements consolidating the results of an entity is to consolidating its results with those of the ultimate parent as the results of a single economic entity.

466 Financial statements dealing with more than one worldwide group treated as split

- (1) This section applies where –
 - (a) consolidated financial statements of an entity and its subsidiaries are drawn up in respect of a period (“the actual period of account”), and
 - (b) the entity was the ultimate parent of a worldwide group for a part (but not all) of that period.
- (2) For the purposes of this Part (apart from this section) –
 - (a) the financial statements mentioned in subsection (1)(a) are treated as not having been drawn up, and
 - (b) consolidated financial statements of the entity and its subsidiaries are treated as having been drawn up in respect of the part of the actual period of account mentioned in subsection (1)(b).
- (3) The financial statements treated by subsection (2)(b) as drawn up are treated as drawn up in accordance with the same accounting principles and practice as the financial statements mentioned in subsection (1)(a).

467 No financial statements of worldwide group: ultimate parent draws up financial statements

- (1) This section applies where –
 - (a) financial statements of the ultimate parent of a worldwide group are drawn up by or on behalf of the ultimate parent in respect of a period (“the relevant period”),
 - (b) consolidated financial statements of the ultimate parent and its subsidiaries are not drawn up by or on behalf of the ultimate parent in respect of the relevant period, and
 - (c) the group was, at any time during the relevant period, a multi-company worldwide group.

- (2) For the purposes of this Part (apart from this section) IAS financial statements of the worldwide group are treated as drawn up in respect of the relevant period.

468 No financial statements of worldwide group: other cases

- (1) In this section “accounts-free period” means (subject to subsection (2)) any period—
- (a) throughout which a worldwide group exists, and
 - (b) in respect of which financial statements of the group are not drawn up by or on behalf of the ultimate parent.
- (2) A period is not an “accounts-free period” if—
- (a) it forms part of an accounts-free period, or
 - (b) it is a period in respect of which IAS financial statements of the group are treated as drawn up under section 467.
- (3) If an accounts-free period in relation to a worldwide group is 12 months or less, IAS financial statements of the worldwide group are treated for the purposes of this Part (apart from this section) as having been drawn up for the accounts-free period.
- (4) If an accounts-free period in relation to a worldwide group is more than 12 months, IAS financial statements of the worldwide group are treated for the purposes of this Part (apart from this section) as having been drawn up for each of the following periods—
- (a) the first period of 12 months falling within the accounts-free period;
 - (b) any subsequent period of 12 months falling within the accounts-free period;
 - (c) any period of less than 12 months which—
 - (i) begins immediately after the end of a period mentioned in paragraph (a) or (b), and
 - (ii) ends at the end of the accounts-free period.

469 Meaning of “IAS financial statements”

- (1) References in this Part to “IAS financial statements” of a worldwide group for a period are (subject to subsection (2)) to consolidated financial statements of the worldwide group’s ultimate parent and its subsidiaries, drawn up in respect of the period in accordance with international accounting standards.
- (2) If the worldwide group is at all times during the period a single-company worldwide group, the references are instead to financial statements of the ultimate parent, drawn up in respect of the period in accordance with international accounting standards.

470 References to amounts recognised in financial statements

- (1) References in this Part to an amount “recognised” in financial statements—
- (a) include an amount comprised in an amount so recognised;
 - (b) are, where the amount is expressed in a currency other than sterling, to that amount translated into its sterling equivalent.

- (2) The exchange rate by reference to which an amount is to be translated under subsection (1)(b) is the average rate of exchange for the period of account, calculated from daily spot rates.
- (3) References in this Part to an amount recognised in financial statements “for a period” as an item of profit or loss include references to an amount that –
 - (a) was previously recognised as an item of other comprehensive income, and
 - (b) is transferred to become an item of profit or loss in determining the profit or loss for the period.

Other definitions

471 Meaning of “relevant accounting period”

For the purposes of this Part a “relevant accounting period” of a company, in relation to a period of account of a worldwide group, means any accounting period that falls wholly or partly within the period of account of the worldwide group.

472 Meaning of “relevant public body”

- (1) In this Part “relevant public body” means –
 - (a) the Crown,
 - (b) a Minister of the Crown,
 - (c) a government department,
 - (d) a Northern Ireland department,
 - (e) a foreign sovereign power,
 - (f) a designated educational establishment (within the meaning given by section 106 of CTA 2009),
 - (g) a health service body (within the meaning given by section 986 of CTA 2010),
 - (h) a local authority, or
 - (i) any other body that acts under any enactment for public purposes and not for its own profit.
- (2) In this section “enactment” includes –
 - (a) an enactment contained in subordinate legislation within the meaning of the Interpretation Act 1978,
 - (b) an enactment contained in, or in an instrument made under, an Act of the Scottish Parliament,
 - (c) an enactment contained in, or in an instrument made under, a Measure or Act of the National Assembly for Wales, and
 - (d) an enactment contained in, or in an instrument made under, Northern Ireland legislation.
- (3) The Commissioners may by regulations amend this section so as to alter the meaning of “relevant public body”.
- (4) The provision that may be made by the regulations does not include provision altering the meaning of “relevant public body” so that it includes a person who has no functions of a public nature.

473 Meaning of “UK group company”

In this Part “UK group company”, in relation to any time during a period of account of a worldwide group, means a company –

- (a) which is within the charge to corporation tax at that time, and
- (b) which is a member of the group at that time.

474 Other interpretation

In this Part –

- “the Commissioners” means the Commissioners for Her Majesty’s Revenue and Customs;
- “interest restriction return” means a return submitted under any provision of Schedule 7A;
- “reporting company” means a company which is for the time being appointed under any provision of Schedule 7A;
- “the return period”, in relation to an interest restriction return of a worldwide group, means the period of account of the group to which the return relates;
- “service concession arrangement” has the meaning given by international accounting standards.

*Regulations***475 Parties to capital market arrangements**

- (1) The Commissioners may make regulations entitling –
 - (a) a UK group company which has a liability to corporation tax as a result of this Part and which is a party to a capital market arrangement, and
 - (b) another UK group company,
 to make a joint election transferring the liability to the other UK group company.
- (2) The regulations may include provision –
 - (a) specifying other conditions that must be met for an election to be made,
 - (b) requiring an election to be made on or before a particular time (for example, before the accounting period for which the liability arises),
 - (c) authorising or requiring an officer of Revenue and Customs (on the exercise of a discretion or otherwise) to accept or reject an election,
 - (d) authorising or requiring an officer of Revenue and Customs (on the exercise of a discretion or otherwise) to revoke an election previously in force and dealing with the effect of the revocation, and
 - (e) dealing with the effect of the transfer of the corporation tax liability on any other liabilities that relate to the transferred corporation tax liability.
- (3) In this section “capital market arrangement” has the same meaning as in section 72B(1) of the Insolvency Act 1986 (see paragraph 1 of Schedule 2A to that Act).

476 Change in accounting standards

- (1) The Treasury may by regulations amend this Part to take account of a change in the way in which amounts are, or may be, presented or disclosed in financial statements where the change results from the issue, revocation, amendment or recognition of, or withdrawal of recognition from, an accounting standard by an accounting body.
- (2) For this purpose –
 - “accounting standard” includes any statement of practice, guidance or other similar document, and
 - “accounting body” means –
 - (a) the International Accounting Standards Board (or successor body), or
 - (b) the Accounting Standards Board (or successor body).
- (3) The regulations –
 - (a) may make provision subject to an election or other specified circumstances, and
 - (b) may make provision having effect in relation to any period beginning before the regulations are made if the change mentioned in subsection (1) is relevant to that period.
- (4) A statutory instrument containing regulations which are capable of increasing the liability of a company to corporation tax may not be made unless a draft of the instrument is laid before, and approved by a resolution of, the House of Commons.

477 Regulations

Regulations under this Part may –

- (a) make different provision for different cases or circumstances,
- (b) include supplementary, incidental and consequential provision, or
- (c) make transitional provision and savings.”

PART 2

NEW SCHEDULE 7A TO TIOPA 2010

2 After Schedule 7 of TIOPA 2010 insert –

“SCHEDULE 7A

Section 374

INTEREST RESTRICTION RETURNS

PART 1

THE REPORTING COMPANY

Appointment by a worldwide group of a reporting company

- 1 (1) A member of a worldwide group may, by notice to an officer of Revenue and Customs –

-
- (a) appoint a company to be the group’s “reporting company” in relation to such period of account of the group as is specified in the appointment, or
 - (b) revoke an appointment that it has previously made.
- (2) A company is eligible for appointment under this paragraph only if it was a UK group company at a time during the period of account and was not dormant throughout that period.
- (3) The revocation of an appointment does not prevent a further appointment.
- (4) An appointment or revocation under this paragraph may not be made –
- (a) before the end of the period of account, or
 - (b) after the end of the period of 6 months beginning with the end of the period of account.
- (5) An appointment or revocation under this paragraph is of no effect unless the notice –
- (a) is signed on behalf of at least 50% of companies that are eligible for appointment, and
 - (b) contains a statement that the signatories represent at least 50% of those companies.
- (6) A notice of appointment under this paragraph may be accompanied by a statement that such of the signatories as may be specified in the statement do not wish to be consenting companies in relation to returns submitted by the reporting company in relation to the period of account.
For provision as to the effect of a statement under this subparagraph, see paragraph 8.
- (7) The Commissioners may by regulations make further provision about an appointment or revocation under this paragraph including, in particular, provision –
- (a) about the form and manner in which an appointment or revocation may be made;
 - (b) requiring a person to give information to an officer of Revenue and Customs in connection with the making of an appointment or revocation;
 - (c) prohibiting a company from being appointed unless it meets conditions specified in the regulations;
 - (d) about the time from which an appointment or revocation has effect;
 - (e) providing that an appointment or revocation is of no effect, or (in the case of an appointment) ceases to have effect, if a requirement under the regulations is not met.

Appointment by Revenue and Customs of a reporting company if group fails to

- 2 (1) This paragraph applies where –
- (a) a worldwide group has not appointed a reporting company under paragraph 1(1) in relation to a period of account of the group, and

- (b) the time limit in paragraph 1(4)(b) (time limit for appointment of reporting company by group) has passed.
- (2) An officer of Revenue and Customs may appoint a company to be the reporting company of the group in relation to the period of account.
- (3) A company is eligible for appointment under this paragraph only if it was a UK group company at a time during the period of account and was not dormant throughout that period.
- (4) An appointment under this paragraph may be made –
 - (a) at any time before the end of the period of 36 months beginning with the end of the period of account, or
 - (b) at any time after the end of that period if, at that time, an amount stated in the company tax return of a UK group company for a relevant accounting period can be altered.
- (5) Paragraph 88(3) to (5) of Schedule 18 to FA 1998 (meaning of “can no longer be altered”) applies for the purposes of this paragraph.

Appointment by officer of Revenue and Customs of replacement reporting company

- 3 (1) This paragraph applies where –
 - (a) a reporting company is appointed under paragraph 1 or 2, or this paragraph, in relation to a period of account of a worldwide group, and
 - (b) condition A or B is met.
- (2) Condition A is that an officer of Revenue and Customs considers that the reporting company mentioned in sub-paragraph (1)(a) has not complied with, or will not comply with, a requirement under or by virtue of this Schedule.
- (3) Condition B is that the reporting company mentioned in sub-paragraph (1)(a) has agreed that an officer of Revenue of Customs may exercise the power in this paragraph.
- (4) An officer of Revenue and Customs may at any time appoint a company to be the reporting company of the group in relation to the period of account in place of the company mentioned in sub-paragraph (1).
- (5) A company is eligible for appointment under this paragraph only if it was a UK group company at a time during the period of account and was not dormant throughout that period.

Obligation of reporting company to notify group members of its appointment

- 4 (1) This paragraph applies where a reporting company is appointed under any provision of this Schedule in relation to a period of account of a worldwide group.
- (2) As soon as reasonably practicable after the appointment, the reporting company must notify each company that was a UK group company at any time during the period of account of its appointment.

- (3) The duty to comply with sub-paragraph (2) is enforceable by the company that must be notified of the appointment.

Obligation of reporting company to submit interest restriction return

- 5 (1) This paragraph applies where a reporting company is appointed under this Part in relation to a period of account of a worldwide group.
- (2) A reporting company that was appointed under paragraph 1 or 2 must submit a return in relation to the period of account to an officer of Revenue and Customs.
- (3) A reporting company that was appointed under paragraph 3 must submit a return in relation to the period of account to an officer of Revenue and Customs if no return in relation to the period was submitted under sub-paragraph (2) or this sub-paragraph.
- (4) A return submitted under this paragraph must be received by an officer of Revenue and Customs before the filing date.
- (5) For this purpose, “the filing date” means –
- (a) the end of the period of 12 months beginning with the end of the period of account, or
 - (b) if later, the end of the period of 3 months beginning with the day on which the reporting company was appointed.
- (6) A return submitted under this paragraph is of no effect unless it is received by an officer of Revenue and Customs before –
- (a) the end of the period of 36 months beginning with the end of the period of account, or
 - (b) if later the end of the period of 3 months beginning with the day on which the reporting company was appointed.

This is subject to paragraphs 46 and 53.

Revised interest restriction return

- 6 (1) This paragraph applies where –
- (a) a reporting company has been appointed under this Part in relation to a period of account of a worldwide group, and
 - (b) a return (“the previous interest restriction return”) was submitted under paragraph 5, or this paragraph, in relation to the period of account.
- (2) The reporting company may submit a revised interest restriction return in relation to the period of account to an officer of Revenue and Customs.
- (3) A revised interest restriction return submitted under sub-paragraph (2) is of no effect unless it is received by an officer of Revenue and Customs before –
- (a) the end of the period of 36 months beginning with the end of the period of account, or
 - (b) if later, the end of the period of 3 months beginning with the day on which the reporting company was appointed.

This is subject to paragraph 46.

- (4) Where—
- (a) a member of the group amends, or is treated as amending, its company tax return, and
 - (b) as a result of the amendment any of the figures contained in the previous interest restriction return have become incorrect,
- the reporting company must submit a revised interest restriction return to an officer of Revenue and Customs.
- (5) A revised interest restriction return submitted under sub-paragraph (4) must be received by an officer of Revenue and Customs before the end of the period of 3 months beginning with—
- (a) the day on which the amended company tax return was received by an officer of Revenue and Customs, or
 - (b) (as the case may be) the day as from which the company tax return was treated as amended.
- (6) A return submitted under this paragraph—
- (a) must indicate the respects in which it differs from the previous return, and
 - (b) supersedes the previous return.

Meaning of “consenting company” and “non-consenting company”

- 7 (1) This paragraph makes provision for the purposes of this Part of this Act about whether a company is a “consenting company” in relation to an interest restriction return submitted by a reporting company in relation to a period of account.
- (2) The company is a “consenting company” in relation to the return if, before the return is submitted—
- (a) it has notified the appropriate persons that it wishes to be a consenting company in relation to interest restriction returns submitted by the reporting company in relation to the period of account, and
 - (b) it has not notified the appropriate persons that it no longer wishes to be a consenting company in relation to such returns.
- (3) In sub-paragraph (2) “the appropriate persons” means—
- (a) an officer of Revenue and Customs, and
 - (b) the reporting company in relation to the period of account.
- (4) The company is a “non-consenting company”, in relation to the return, if it is not a consenting company in relation to the return.

Signatory of appointment of reporting company treated as a consenting company

- 8 (1) This paragraph applies where a company—
- (a) is a signatory to the appointment under paragraph 1 of a reporting company in relation to a period of account, and
 - (b) is not included in a statement under sub-paragraph (6) of that paragraph (signatories not wishing to be consenting companies).

- (2) The signatory is treated as having given, at the time of the appointment, a notice under paragraph 7(2)(a) in relation to interest restriction returns submitted by the reporting company in relation to the period of account.
- (3) Sub-paragraph (2) does not prevent the signatory, at any time after the appointment, from giving a notice under paragraph 7(2)(b) in relation to interest restriction returns submitted by the reporting company in relation to the period of account.

PART 2

CONTENTS OF INTEREST RESTRICTION RETURN

Elections

- 9 (1) The following elections must be made in an interest restriction return –
 - (a) a group ratio election (see paragraph 10);
 - (b) a group ratio blended election (see paragraph 11);
 - (c) an interest allowance (alternative calculation) election (see paragraph 12);
 - (d) an interest allowance (non-consolidated investment) election (see paragraph 13);
 - (e) an interest allowance (consolidated partnerships) election (see paragraph 14);
 - (f) an abbreviated return election (see paragraph 15).
- (2) If an election within sub-paragraph (1) is capable of being revoked, the revocation must also must be made in an interest restriction return.

Group ratio election

- 10 (1) This paragraph applies where a reporting company has been appointed under this Part of this Schedule in relation to a period of account of a worldwide group.
- (2) The reporting company may –
 - (a) elect that the interest allowance of the group is to be calculated using the group ratio method, or
 - (b) revoke an election previously made.
- (3) An election or revocation under this paragraph has effect in relation to the period of account.
- (4) An election under this paragraph is referred to in this Part of this Act as a “group ratio election”.
- (5) For provision as to the effect of a group ratio election, see section 396.

Group ratio (blended) election

- 11 (1) This paragraph applies where –

- (a) a reporting company has been appointed under this Part in relation to a period of account of a worldwide group,
 - (b) the reporting company makes a group ratio election in respect of the period of account, and
 - (c) a related party investor in relation to the period of account is, throughout the period of account, a member of a worldwide group other than that mentioned paragraph (a).
- (2) The reporting company may –
- (a) elect that Chapter 5 of Part 10 (interest allowance) is to apply subject to the blended group ratio provisions, or
 - (b) revoke an election previously made.
- (3) An election or revocation under this paragraph has effect in relation to the period of account.
- (4) An election under this paragraph is referred to in this Part of this Act as a “group ratio (blended) election”.
- (5) In this paragraph “the blended group ratio provisions” means the provisions of section 399.

Interest allowance (alternative calculation) election

- 12 (1) This paragraph applies where a reporting company has been appointed under this Part in relation to a period of account of a worldwide group.
- (2) The reporting company may elect that Chapter 7 of Part 10 (group-interest and group-EBITDA) is to apply subject to the alternative calculation provisions.
- (3) An election under this paragraph –
- (a) has effect in relation to the period of account and subsequent periods of account of the worldwide group, and
 - (b) is irrevocable.
- (4) An election under this paragraph is referred to in this Part of this Act as an “interest allowance (alternative calculation) election”.
- (5) In this paragraph “the alternative calculation provisions” means sections 416 to 420.

Interest allowance (non-consolidated investment) election

- 13 (1) This paragraph applies where a reporting company has been appointed under this Part in relation to a period of account of a worldwide group.
- (2) The reporting company may –
- (a) elect that Chapter 7 of Part 10 (group-interest and group-EBITDA) is to apply subject to the non-consolidated investment provisions, or
 - (b) revoke an election previously made.

- (3) An election under this paragraph must specify, for the purposes of the non-consolidated investment provisions, one or more non-consolidated associates of the worldwide group.
- (4) An election or revocation under this paragraph has effect in relation to the period of account.
- (5) An election under this paragraph is referred to in this Part of this Act as an “interest allowance (non-consolidated investment) election”.
- (6) In this paragraph “the non-consolidated investment provisions” means sections 421 and 422.

Interest allowance (consolidated partnerships) election

- 14 (1) This paragraph applies where a reporting company has been appointed under this Part in relation to a period of account of a worldwide group.
- (2) The reporting company may elect that Chapter 7 of Part 10 (group-interest and group-EBITDA) is to apply subject to the consolidated partnership provisions.
- (3) An election under this paragraph must specify, for the purposes of the consolidated partnership provisions, one or more consolidated partnerships of the worldwide group.
- (4) Where an election under this paragraph has been made in relation to a worldwide group, a further election may be made under that sub-paragraph specifying, for the purposes consolidated partnership provisions, one or more additional consolidated partnerships of the worldwide group.
- (5) An election under this paragraph –
 - (a) has effect in relation to the period of account and subsequent periods of account of the worldwide group, and
 - (b) is irrevocable.
- (6) An election under this paragraph is referred to in this Part of this Act as an “interest allowance (consolidated partnerships) election”.
- (7) In this paragraph “the consolidated partnership provisions” means the provisions of section 424.

Abbreviated return election

- 15 (1) This paragraph applies where a reporting company has been appointed under this Part of this Schedule in relation to a period of account of a worldwide group.
- (2) The reporting company may –
 - (a) elect to submit an abbreviated interest restriction return, or
 - (b) revoke an election previously made.

- (3) An election or revocation under this paragraph has effect in relation to the period of account.
- (4) An election under this paragraph is referred to in this Part of this Act as an “abbreviated return election”.
- (5) For provision as to the effect of an abbreviated return election, see—
 - paragraph 16 of this Schedule (which limits the required contents of the interest restriction return);
 - section 393 (which deprives the group of the use of interest allowance for the return period, or any earlier period, in future periods of account).

Required contents of interest restriction return: full returns and abbreviated returns

- 16 (1) This paragraph makes provision about the contents of an interest restriction return submitted by a reporting company.
- (2) The return must (subject to sub-paragraph (3))—
 - (a) state the name and (where it has one) the Unique Taxpayer Reference of the ultimate parent of the worldwide group;
 - (b) specify the return period;
 - (c) state the names and Unique Taxpayer References (where they have them) of the companies that were UK group companies at any time during the return period, specifying in relation to each whether it is a consenting or a non-consenting company in relation to the return;
 - (d) contain a statement of calculations (see paragraph 17);
 - (e) if the group is subject to interest restrictions in the return period—
 - (i) contain a statement of that fact,
 - (ii) specify the total disallowed amount, and
 - (iii) contain a statement of allocated interest restrictions (see paragraph 18);
 - (f) if the group is subject to interest reactivations in the return period—
 - (i) contain a statement of that fact,
 - (ii) specify the interest reactivation cap,
 - (iii) contain a statement of allocated interest reactivations (see paragraph 21);
 - (g) contain a declaration by the person making the return that the return is, to the best of that person’s knowledge, correct and complete.
- (3) If the worldwide group is not subject to interest restrictions in the return period and the reporting company has made an abbreviated return election, the return must—
 - (a) state that the group is not subject to interest restrictions in the return period;
 - (b) comply with paragraphs (a) to (c) and (g) of sub-paragraph (2).

- (4) If the ultimate parent of the worldwide group is a deemed parent by virtue of section 461 (stapled entities) or 462 (business combinations), the requirement in sub-paragraph (2)(a) is to state the name and (where it has one) Unique Taxpayer Reference of each of the entities mentioned in that paragraph.
- (5) In this Part of this Act—
- (a) a return prepared in accordance with sub-paragraph (2) is referred to as “a full interest restriction return”;
 - (b) a return prepared in accordance with sub-paragraph (3) is referred to as “an abbreviated interest restriction return”.

Statement of calculations

- 17 The statement of calculations required by paragraph 16(2)(d) to be included in a full interest restriction return must include the following information—
- (a) for each company that was a UK group company at any time during the return period—
 - (i) the company’s net tax-interest expense, or net tax-interest income, for the return period (see section 389);
 - (ii) the company’s tax-EBITDA for the return period (see section 402);
 - (b) the aggregate net tax-interest expense, and aggregate net tax-interest income, of the group for the return period (see section 390);
 - (c) the interest capacity of the group for the return period (see section 392);
 - (d) the aggregate of interest allowances of the group for periods before the return period so far as they are available in the return period (see section 393);
 - (e) the interest allowance of the group for the return period (see section 396);
 - (f) the aggregate tax-EBITDA of the group for the return period (see section 401);
 - (g) where the interest allowance is calculated using the fixed ratio method and that allowance is given by section 397(1)(b), the adjusted net group-interest expense of the group for the return period (see section 409);
 - (h) where the interest allowance is calculated using the group ratio method—
 - (i) the group ratio percentage (see section 398);
 - (ii) the qualifying net group-interest expense of the group for the return period (see section 410);
 - (iii) the group-EBITDA of the group for the return period (see section 411).

Statement of allocated interest restrictions

- 18 (1) The statement of allocated interest restrictions required by paragraph 16(2)(e) to be included in a full interest restriction return must—

- (a) list one or more companies that –
 - (i) were UK group companies at any time during the return period, and
 - (ii) had net tax-interest expense for the period,
 - (b) in relation to each company listed under paragraph (a), specify an amount, and
 - (c) show the total of the amounts specified under paragraph (b).
- (2) The amount specified under sub-paragraph (1)(b) in relation to a company is referred to in this Part of this Act as the “allocated disallowance” of the company for the return period.
- (3) The allocated disallowance of a company for the return period –
- (a) must not exceed the net tax-interest expense of the company for the return period,
 - (b) where the company is a non-consenting company in relation to the return, must not exceed the company’s pro-rata share of the total disallowed amount (see paragraph 19), and
 - (c) must not be a negative amount.
- (4) The sum of the allocated disallowances for the return period of the companies listed in the statement must equal the total disallowed amount.
- (5) The statement must also specify an amount in relation to each relevant accounting period of each company listed in the statement.
- (6) The amount specified under sub-paragraph (5) in relation to an accounting period of a company is referred to in this Part of this Act as the “allocated disallowance” of the company for the accounting period.
- (7) In the case of a company that has only one relevant accounting period, the allocated disallowance of the company for that accounting period must be equal to the allocated disallowance of the company for the return period.
- (8) In the case of a company that has more than one relevant accounting period, the allocated disallowance of the company for any of those accounting periods –
- (a) must not exceed so much of the net tax-interest expense of the company for the return period as is referable to the accounting period,
 - (b) where the company is a non-consenting company in relation to the return, must not exceed the accounting period’s pro-rata share of the total disallowed amount (see paragraph 20), and
 - (c) must not be a negative amount.
- (9) The sum of the allocated disallowances of the company for its relevant accounting periods must be equal to the allocated disallowance of the company for the return period.

A company's pro-rata share of the total disallowed amount

- 19 (1) This paragraph –
- (a) applies in relation to a worldwide group that is subject to interest restrictions in a period of account of the group, and
 - (b) allocates the total disallowed amount of the group in the period to companies that are UK group companies at any time during the period.
- (2) The amount allocated to a company under this paragraph is referred to in this Part of this Act as the company's "pro-rata share" of the total disallowed amount.
- (3) Sub-paragraph (4) applies in relation to a company that has net tax-interest expense for the period of account.
- (4) The amount of the total disallowed amount that is allocated to the company is –

$$A \times \frac{B}{C}$$

where –

- A is the total disallowed amount;
 - B is the net tax-interest expense of the company for the period of account;
 - C is the sum of the net tax-interest expense for the period of account of each company that has net tax-interest expense for the period.
- (5) Where this paragraph does not allocate any of the total disallowed amount to a company, the company's "pro-rata share" of the total disallowed amount is nil.

Accounting period's pro-rata share of the total disallowed amount

- 20 (1) This paragraph –
- (a) applies in relation to a worldwide group that is subject to interest restrictions in a period of account of the group ("the relevant period of account"), and
 - (b) allocates the total disallowed amount of the group in the period of account to relevant accounting periods of companies that are UK group companies at any time during that period.
- (2) The amount allocated to an accounting period under this paragraph is referred to in this Part of this Act as the accounting period's "pro-rata share" of the total disallowed amount.
- (3) Sub-paragraph (4) applies where –
- (a) a company's pro-rata share of the total disallowed amount is not nil, and
 - (b) the company has only one relevant accounting period.
- (4) The amount of the total disallowed amount that is allocated to the accounting period is the company's pro-rata share of the total disallowed amount.

- (5) Sub-paragraph (6) applies where –
- (a) a company’s pro-rata share of the total disallowed amount is not nil, and
 - (b) the company has more than one relevant accounting period.
- (6) The amount of the total disallowed amount that is allocated to a relevant accounting period of the company is –

$$A \times \frac{B}{C}$$

where –

- A is the company’s pro-rata share of the total disallowed amount;
 - B is the net tax-interest expense of the company for the accounting period;
 - C is the sum of the net tax-interest expenses of the company for each relevant accounting period.
- (7) Where this paragraph does not allocate any of the total disallowed amount to an accounting period of a company, the accounting period’s “pro-rata share” of the total disallowed amount is nil.
- (8) For the purposes of this paragraph, the “net tax-interest expense” of a company for a relevant accounting period is –
- (a) so much of the net tax-interest expense of the company for the relevant period of account as is referable to the accounting period, or
 - (b) if the amount determined under paragraph (a) is negative, nil.

Statement of allocated interest reactivations

- 21 (1) The statement of allocated interest reactivations required by paragraph 16(2)(f) to be included in a full interest restriction return must –
- (a) list one or more companies that are UK group companies at any time during the return period,
 - (b) in relation to each company listed under paragraph (a), specify an amount, and
 - (c) show the total of the amounts specified under paragraph (b).
- (2) The amount specified under sub-paragraph (1)(b) in relation to a company is referred to in this Part of this Act as the “allocated reactivation” of the company for the return period.
- (3) The allocated reactivation of a company for the return period –
- (a) must not exceed the amount available for reactivation of the company in the return period (see paragraph 22), and
 - (b) must not be a negative amount.
- (4) The sum of the allocated reactivations for the return period of the companies listed in the statement must equal –

- (a) the sum of the amounts available for reactivation of each company in the return period, or
- (b) if lower, the interest reactivation cap of the worldwide group in the return period.

“Amount available for reactivation” of company in period of account of group

- 22 (1) This paragraph applies for the purposes of this Part of this Act.
- (2) The “amount available for reactivation” of a company in a period of account of a worldwide group (“the relevant worldwide group”) is –
- (a) the amount determined under sub-paragraph (3), or
 - (b) if lower, the company’s interest reactivation cap (see sub-paragraph (5)).
- (3) The amount referred to in sub-paragraph (2)(a) is –

$$A + B - C + D - E$$

where –

- A is the total of the disallowed tax-interest expense amounts (if any) that are brought forward to the specified accounting period from earlier accounting periods;
 - B is the total of the tax-interest expense amounts (if any) that the company is required to leave out of account in the specified accounting period as a result of the operation of this Part of this Act in relation to a period of account of the worldwide group before the period of account;
 - C is the total of the disallowed tax-interest expense amounts (if any) that the company is required to bring into account in the specified accounting period as a result of the operation of this Part of this Act in relation to a period of account of the worldwide group before the period of account;
 - D is the total of the tax-interest expense amounts (if any) that the company is required to leave out of account in the specified accounting period as a result of the operation of this Part of this Act in relation to a period of account of a worldwide group of which the company was a member before it became a member of the relevant worldwide group;
 - E is the total of the disallowed tax-interest expense amounts (if any) that the company is required to bring into account in the specified accounting period as a result of the operation of this Part of this Act in relation to a period of account of a worldwide group of which the company was a member before it became a member of the relevant worldwide group.
- (4) In sub-paragraph (3) “the specified accounting period” means –
- (a) the earliest relevant accounting period of the company, or
 - (b) where the company became a member of the relevant worldwide group during the period of account, the earliest

relevant accounting period of the company in which it was a member of the group.

- (5) For the purposes of sub-paragraph (2)(b) “the interest reactivation cap” of the company is –

$$A \times B$$

where –

A is the interest reactivation cap of the worldwide group in the period of account;

B is the proportion of the period of account in which the company is a UK group company.

Estimated information in statements

- 23 (1) The paragraph applies in relation to a statement under –
- (a) paragraph 17 (statement of calculations),
 - (b) paragraph 18 (statement of allocated interest restrictions), or
 - (c) paragraph 21 (statement of allocated interest reactivations).
- (2) Where any information is included in the statement that is (or is derived from) estimated information, the statement –
- (a) must state that fact, and
 - (b) must identify the information in question.
- (3) Where –
- (a) estimated information (or information deriving from estimated information) is included in an interest restriction return in relation to a period of account in reliance on this paragraph, and
 - (b) a period of 36 months beginning with the end of that period of account has passed without the information becoming final,
- the reporting company must give a notice to an officer of Revenue and Customs within the period of 30 days beginning with the end of that 36-month period.
- (4) The notice –
- (a) must identify the information in question that is not final, and
 - (b) must indicate when the reporting company expects the information to become final.
- (5) If a company fails to comply with the duty under sub-paragraph (3), it is liable to a penalty of £500.
- (6) An officer of Revenue and Customs may, in a particular case, treat a revised interest restriction submitted after the end of the applicable period under paragraph 6(3)(a) or (b) as having effect if –
- (a) the revisions to the return are limited to those necessary to take account of information that has become final,

- (b) the officer considers that it was not possible to make those revisions before the end of that period, and
- (c) the reporting company has complied with the duty under sub-paragraph (3).

Correction of return by officer of Revenue and Customs

- 24 (1) An officer of Revenue and Customs may amend an interest restriction return submitted by a company so as to correct –
- (a) obvious errors or omissions in the return (whether errors of principle, arithmetical mistakes or otherwise), and
 - (b) anything else in the return that the officer has reason to believe is incorrect in the light of information available to the officer.
- (2) A correction under this paragraph is made by notice to the company.
- (3) A correction under this paragraph must not be made more than 9 months after the day on which the return was submitted.
- (4) A correction under this paragraph is of no effect if the company –
- (a) revises the return so as to reject the correction, or
 - (b) after the end of the period mentioned in paragraph 6(3)(a) or (b) but within 3 months from the date of the issue of the notice of correction, gives notice rejecting the correction.
- (5) Notice under sub-paragraph (4)(b) must be given to the officer of Revenue and Customs by whom notice of the correction was given.

Penalty for failure to deliver return

- 25 (1) A company is liable to a penalty if the company –
- (a) is required to submit an interest restriction return under paragraph 5 in relation to a period of account of a worldwide group, and
 - (b) fails to do so by the filing date provided for by sub-paragraph (5) of that paragraph.
- (2) The penalty is –
- (a) £500 if the return is delivered within three months after the filing date, and
 - (b) £1,000 in any other case.
- (3) If a company becomes liable to a penalty under this paragraph, an officer of Revenue and Customs must –
- (a) assess the penalty, and
 - (b) notify the company.
- (4) The assessment must be made within the period of 12 months beginning with the filing date mentioned in sub-paragraph (1)(b).
- (5) A company may, by notice, appeal against a decision of an officer of Revenue and Customs that a penalty is payable under this paragraph.

- (6) Notice of appeal under this paragraph must be given—
 - (a) within 30 days after the penalty was notified to the company,
 - (b) to the officer of Revenue and Customs who notified the company.
- (7) A penalty under this paragraph must be paid before the end of the period of 30 days beginning with—
 - (a) the day on which the company was notified of the penalty, or
 - (b) if notice of appeal against the penalty is given, the day on which the appeal is finally determined or withdrawn.

Penalty for incorrect or uncorrected return

- 26 (1) A company is liable to a penalty if—
- (a) the company (or a person acting on its behalf) submits an interest restriction return to an officer of Revenue and Customs in relation to a period of account of a worldwide group,
 - (b) there is an inaccuracy in the return which meets condition A or B, and
 - (c) the inaccuracy is due to a failure by the company (or a person acting on its behalf) to take reasonable care (a “careless inaccuracy”) or the company makes the inaccuracy deliberately (a “deliberate inaccuracy”).
- (2) An inaccuracy meets condition A if it consists of understating the total disallowed amount in the period of account of the group (including a case where no amount is specified in the return).
- (3) An inaccuracy meets condition B if it consists of overstating the interest reactivation cap in the period of account of the group.
- (4) A penalty payable under this paragraph is equal to the appropriate part of the notional tax.
- (5) For the purposes of this Part of this Schedule—
- “the appropriate part” means—
 - (a) in the case of a careless inaccuracy, 30%,
 - (b) in the case of a deliberate inaccuracy that is not concealed, 70%, and
 - (c) in the case of a deliberate inaccuracy that is concealed, 100%, and
 - “the notional tax” means the result produced by applying the average rate of the main corporation tax rate applicable in each of the days of the period of account to the total of the amount of the understatement referred to in condition A and the amount of the overstatement referred to in condition B.
- (6) A company is not liable to a penalty under this paragraph in respect of anything done or omitted to be done by the company’s agent if the company took reasonable care to avoid the inaccuracy.

Meaning of “deliberate inaccuracy that is concealed” and discovering inaccuracy after return submitted

- 27 (1) For the purposes of this Part of this Schedule a deliberate inaccuracy made by a company is concealed if the company makes arrangements to conceal it (for example, by submitting false evidence in support of an inaccurate figure).
- (2) An inaccuracy in an interest restriction return which was not a careless or deliberate inaccuracy made by a company (or a person acting on its behalf) when the return was submitted is taken to be a careless inaccuracy made by the company for the purposes of this Part of this Schedule if the company (or a person acting on its behalf) –
- (a) discovers the inaccuracy at some later time, and
 - (b) does not take reasonable steps to inform an officer of Revenue and Customs.

Inaccuracy in return attributable to another company

- 28 (1) A company (“C”) is liable to a penalty if –
- (a) another company submits an interest restriction return in relation to a period of account of a worldwide group,
 - (b) there is an inaccuracy in the return which meets condition A or B in paragraph 26, and
 - (c) the inaccuracy was attributable to C deliberately supplying false information to the other company, or to C deliberately withholding information from the other company, with the intention of the return containing the inaccuracy.
- (2) A penalty is payable under this paragraph in respect of an inaccuracy whether or not the other company is liable to a penalty under paragraph 26 in respect of the same inaccuracy.
- (3) A penalty payable under this paragraph is equal to the notional tax.

Reductions in amount of penalty for disclosure or special circumstances

- 29 (1) If a company liable to a penalty under paragraph 26 or 28 in respect of an inaccuracy discloses the inaccuracy –
- (a) the penalty must be reduced to one that reflects the quality of the disclosure (including its timing, nature and extent), but
 - (b) the penalty may not be reduced below the applicable minimum.
- (2) In the case of a penalty under paragraph 26, the applicable minimum is –
- (a) in the case of a careless inaccuracy, 0% of the notional tax if the disclosure is unprompted and 15% otherwise,
 - (b) in the case of a deliberate inaccuracy that is not concealed, 30% of the notional tax if the disclosure is unprompted and 45% otherwise, and

- (c) in the case of a deliberate inaccuracy that is concealed, 40% of the notional tax if the disclosure is unprompted and 60% otherwise.
- (3) In the case of a penalty under paragraph 28, the applicable minimum is 40% of the notional tax if the disclosure is unprompted and 60% otherwise.
- (4) For the purposes of this paragraph –
 - (a) a person makes a disclosure of an inaccuracy by telling an officer of Revenue and Customs about it, giving an officer of Revenue and Customs reasonable help in quantifying it and allowing an officer of Revenue and Customs access to records to ensure that it is fully corrected, and
 - (b) a person makes an “unprompted” disclosure at any time if the person has no reason at that time to believe that an officer of Revenue and Customs have discovered, or are about to discover, the inaccuracy.
- (5) If they think it right because of special circumstances, an officer of Revenue and Customs may –
 - (a) reduce a penalty under paragraph 26 or 28, or
 - (b) stay the penalty or agree a compromise in relation to proceedings for the penalty.
- (6) The reference to special circumstances does not include an ability to pay but, subject to that, is taken to include, or exclude, such other circumstances as are prescribed by regulations made by the Commissioners.
- (7) The power to prescribe circumstances includes power to prescribe circumstances by reference to the notional tax and the extent to which the notional tax exceeds, or is likely to exceed, any actual loss of tax to the Crown.

Assessment, payment and enforcement of penalty

- 30 (1) If a person becomes liable to a penalty under paragraph 26 or 28, an officer of Revenue and Customs must –
 - (a) assess the penalty, and
 - (b) notify the person.
- (2) The assessment must be made within the period of 12 months beginning with the day on which the inaccuracy is corrected.
- (3) The penalty must be paid before the end of the period of 30 days beginning with –
 - (a) the day on which the person was notified of the penalty, or
 - (b) if notice of appeal against the penalty is given, the day on which the appeal is finally determined or withdrawn.
- (4) An assessment may be enforced –
 - (a) as if it were an assessment to corporation tax (which, among other things, secures the application of Chapters 6 and 7 of Part 22 of CTA 2010 (corporation tax payable by non-UK resident companies: recovery from others)), and

- (b) as if that assessment were also an assessment to corporation tax of any company which was a UK group company of the group at any time in the period of account in relation to which the interest restriction return contained an inaccuracy.

Right to appeal against penalty or its amount

- 31 A person may, by notice, appeal against—
- (a) a decision of an officer of Revenue and Customs that a penalty under paragraph 26 or 28 is payable, or
 - (b) a decision of an officer of Revenue and Customs as to the amount of a penalty under paragraph 26 or 28.

Procedure on appeal

- 32 (1) Notice of an appeal under paragraph 31 must be given—
- (a) within 30 days after the penalty was notified to the person,
 - (b) to an officer of Revenue and Customs.
- (2) On an appeal notified to the tribunal against a decision that a penalty is payable, the tribunal may confirm or cancel the decision.
- (3) On an appeal notified to the tribunal against the amount of a penalty, the tribunal may—
- (a) confirm the decision, or
 - (b) substitute for the decision another decision that an officer of Revenue and Customs had power to make.
- (4) If the tribunal substitutes its decision for a decision of an officer of Revenue and Customs, the tribunal may rely on paragraph 29(5)—
- (a) to the same extent as an officer of Revenue and Customs (which may mean applying the same percentage reduction as the officer to a different starting point), or
 - (b) to a different extent, but only if the tribunal thinks that the decision in respect of the application of paragraph 29(5) was flawed.
- (5) For this purpose “flawed” means flawed when considered in the light of the principles applicable in proceedings for judicial review.
- (6) Subject to this Part of this Schedule, the provisions of Part 5 of TMA 1970 relating to appeals have effect in relation to appeals under this Part of this Schedule as they have effect in relation to appeals against an assessment to corporation tax.

Payments between companies in respect of penalties

- 33 (1) This paragraph applies if—
- (a) a company (“P”) liable to a penalty under this Part of this Schedule has an agreement in relation to the penalty with one or more other companies within the charge to corporation tax, and

- (b) as a result of the agreement, P receives a payment or payments in respect of the penalty that do not, in total, exceed the amount of the penalty.
- (2) The payment –
- (a) is not to be taken into account in calculating the profits for corporation tax purposes of either P or the company making the payment, and
 - (b) is not to be regarded as a distribution for corporation tax purposes.

PART 3

DUTY TO KEEP AND PRESERVE RECORDS

Duty to keep and preserve records

- 34 (1) A company which is a reporting company in relation to a period of account of a worldwide group must –
- (a) keep such records as may be needed to enable it to submit a correct and complete interest restriction return in relation to the period, and
 - (b) preserve those records in accordance with this paragraph.
- (2) The records must be preserved until the end of the relevant day.
- (3) In this paragraph “the relevant day” means –
- (a) the sixth anniversary of the end of the period of account, or
 - (b) such earlier date as may be specified in writing by an officer of Revenue and Customs (and different days may be specified for different cases).
- (4) If the company is required to submit an interest restriction return in relation to the period before the end of the relevant day, the records must be preserved until any later date on which –
- (a) any enquiry into the return is complete, or
 - (b) if there is no enquiry, an officer of Revenue and Customs no longer has the power to enquire into the return (but, for this purpose, paragraph 38 is to be ignored).
- (5) If the company is required to submit an interest restriction return in relation to the period after the end of the relevant day and has in its possession at that time any records that may be needed to enable it to submit a correct and complete return, it is under a duty to preserve those records until the date on which –
- (a) any enquiry into the return is complete, or
 - (b) if there is no enquiry, an officer of Revenue and Customs no longer has the power to enquire into the return (but, for this purpose, paragraph 38 is to be ignored).
- (6) The duty under this paragraph to preserve records may be discharged –
- (a) by preserving them in any form and by any means, or
 - (b) by preserving the information contained in them in any form and by any means,

subject to any conditions or exceptions specified in writing by an officer of Revenue and Customs.

- (7) The Commissioners may by regulations –
- (a) provide that the records required to be kept and preserved under this paragraph include, or do not include, records specified in the regulations, and
 - (b) provide that those records include supporting documents so specified.
- (8) The regulations may make provision by reference to things specified in a notice published by the Commissioners in accordance with the regulations (and not withdrawn by a subsequent notice).

Penalty for failure to keep and preserve records

- 35 (1) A company which fails to comply with paragraph 34 is liable to a penalty not exceeding £3,000.
- (2) If a company becomes liable to a penalty under that paragraph, an officer of Revenue and Customs must –
- (a) assess the penalty, and
 - (b) notify the company.
- (3) The assessment must be made within the period of 12 months beginning with the day on which an officer of Revenue and Customs first becomes aware that the company has failed to comply with paragraph 34.
- (4) A company may, by notice, appeal against a decision of an officer of Revenue and Customs that a penalty is payable under this paragraph.
- (5) Notice of appeal under this paragraph must be given –
- (a) within 30 days after the penalty was notified to the company,
 - (b) to the officer of Revenue and Customs who notified the company.
- (6) A penalty under this paragraph must be paid before the end of the period of 30 days beginning with –
- (a) the day on which the company was notified of the penalty, or
 - (b) if notice of appeal against the penalty is given, the day on which the appeal is finally determined or withdrawn.

PART 4

ENQUIRY INTO INTEREST RESTRICTION RETURN

Notice of enquiry

- 36 (1) An officer of Revenue and Customs may enquire into an interest restriction return submitted by a reporting company if the officer

gives notice to the company of the officer's intention to do so ("notice of enquiry").

- (2) The general rule is that an interest restriction return which has been the subject of one notice of enquiry may not be the subject of another.
- (3) But if a return is superseded by a revised interest restriction return (or by a further revised interest restriction return) submitted under paragraph 6, notice of enquiry may be given in relation to the revised (or further revised) interest restriction return even though notice of enquiry has been given in relation to the original return or an earlier revised return.
- (4) But see paragraph 39(5) for a limitation in certain circumstances on the scope of an enquiry into a revised interest restriction return.
- (5) The power to give notice of enquiry into an interest restriction return in relation to a period of account of a worldwide group does not restrict the power to give notice of enquiry into a company tax return of a company that is a member of the group at any time in that period.
- (6) Accordingly, an amendment of the company's company tax return may be required as a result of an enquiry into the interest restriction return even though a closure notice has been given in respect of an enquiry into that company tax return.
- (7) But see paragraph 39(2) for a limitation on the scope of an enquiry into an interest restriction return so far as affecting amounts in a company tax return.

Normal time limits for opening enquiry

- 37 (1) This paragraph applies where an interest restriction return is submitted by a reporting company in relation to a period of account.
- (2) Notice of enquiry may be given at any time before whichever is the latest of—
 - (a) the end of the period of 39 months beginning with the end of the period of account;
 - (b) the end of the period of 6 months beginning with the day on which the reporting company was appointed; and
 - (c) if a revised interest restriction return is submitted under paragraph 6, the 31 January, 30 April, 31 July or 31 October next following the first anniversary of the day on which an officer of Revenue and Customs receives the revised return.
- (3) If—
 - (a) estimated information (or information deriving from estimated information) is included in an interest restriction return in relation to a period of account in reliance on paragraph 23, and

- (b) a period of 36 months beginning with the end of that period of account has passed without the information becoming final,
notice of enquiry may be given at any time up to and including the end of the period of 12 months beginning with the end of that 36-month period.
- (4) If an interest restriction return is submitted under paragraph 53 (revision of return following HMRC determination), notice of enquiry may be given at any time up to and including the 31 January, 30 April, 31 July or 31 October next following the first anniversary of the day on which an officer of Revenue and Customs receives the return.
- (5) This paragraph is subject to paragraph 38 (which allows notices of enquiry to be given after the time allowed by this paragraph or an enquiry previously closed to be re-opened).

Extended time limits for opening enquiries: discovery of errors

- 38 (1) Notice of enquiry may be given later than the time allowed under paragraph 37, or a closed enquiry may be re-opened, if—
- (a) an officer of Revenue and Customs discovers that an interest restriction return submitted to an officer of Revenue and Customs does not, or might not, comply with the requirements of paragraph 16(2) in any respect,
 - (b) there would be, or might be, an increase in tax payable by any company for any accounting period if the return had complied with those requirements in that respect,
 - (c) the discovery is made after the time allowed under paragraph 37 or after an enquiry into the return has been closed, and
 - (d) the officer could not, at the relevant time and by reference to the relevant information, have been reasonably expected to be aware of the respects in which the return might not comply with those requirements.
- (2) For this purpose “the relevant time” means—
- (a) in a case where no notice of enquiry has been given within the time allowed under paragraph 37, when an officer of Revenue and Customs ceased to be entitled to give a notice, or
 - (b) in a case where an enquiry has been closed, when the officer gave the closure notice.
- (3) For this purpose “the relevant information” means information which—
- (a) is contained in the interest restriction return in question or either of the two returns for the immediately preceding periods of account of the group,
 - (b) is contained in any documents, financial statements or other accounts or information produced or provided to an officer of Revenue or Customs for the purposes of an enquiry into the interest restriction return in question or

- either of the two returns for the immediately preceding periods of account of the group,
- (c) is information the existence of which, and the relevance of which as regards the situation mentioned in subparagraph (1)(b), could reasonably be expected to be inferred by an officer of Revenue and Customs from information falling with paragraph (a) or (b) of this subparagraph, or
 - (d) is information the existence of which, and the relevance of which as regards the situation mentioned in subparagraph (1)(b), are notified in writing to an officer of Revenue and Customs by the reporting company for the period of account or a person acting on its behalf.
- (4) Notice of enquiry into an interest restriction return for a period of account may not be given, or a closed enquiry may not be reopened, as a result of this paragraph more than the applicable number of years after the end of the period of account.
- (5) The “applicable number of years” is –
- (a) 20 years in a case involving deliberate non-compliance by the reporting company for the period of account or by a qualifying person,
 - (b) 6 years in a case involving careless non-compliance by the reporting company for the period of account or by a qualifying person, and
 - (c) 4 years in any other case.
- (6) For this purpose “qualifying person” means –
- (a) a person acting on behalf of the reporting company for the period of account, or
 - (b) a person who was a partner of the reporting company for the period of account at the relevant time.
- (7) For the purposes of this paragraph an enquiry is “closed” when a closure notice is given in relation to the enquiry.

Scope of enquiry

- 39 (1) An enquiry into an interest restriction return extends to anything contained, or required to be contained, in the return (including any election included in the return).
- (2) But the enquiry does not extend to an enquiry into an amount –
- (a) which is contained, or required to be contained, in a company tax return of a UK group company, and
 - (b) which is taken into account in any calculation required for the purposes of the interest restriction return.
- (3) Sub-paragraph (2) does not affect –
- (a) any question as to whether or not, as a result of this Part of this Act, the amount falls to be left out of account, or to be brought into account, in any accounting period of the company, or

- (b) the way in which, by reference to that amount and other matters, any provision of this Part of this Act has effect to determine whether or not the amount, or any other amount, is to be left out of, or brought into account, in any accounting period (whether of that company or another company).
- (4) Nor does sub-paragraph (2) limit the operation of any provision of Part 4 of Schedule 18 to FA 1998 (determinations and assessments made by officers of Revenue and Customs).
- (5) If—
- (a) at any time an enquiry into an interest restriction return (“the first return”) has been closed, and
- (b) that return is subsequently superseded by a revised interest restriction return (or by a further revised interest restriction return) submitted under paragraph 6,
- the enquiry into the revised (or further revised) interest restriction return extends only to matters arising as a result of information that was not included in the first return.
- (6) For this purpose an enquiry is “closed” when a closure notice is given in relation to the enquiry.

Enquiry into return for wrong period or wrong group

- 40 (1) If it appears to an officer of Revenue and Customs that the period of account in relation to which an interest restriction return has been submitted is or may be the wrong period, the power to enquire into the return includes power to enquire into the period for which the return ought to have been made.
- (2) If sub-paragraph (1) applies, paragraph 37 (normal time limits for opening enquiry) has effect as if the return were one that had been submitted in relation to the correct period of account.
- (3) If it appears to an officer of Revenue and Customs that the worldwide group (“the relevant group”) in relation to which an interest restriction return has been submitted—
- (a) consists of, or may consist of, two or more worldwide groups,
- (b) includes, or may include, entities that are members of a different worldwide group or groups, or
- (c) does not include, or may not include, entities that should be members of the relevant group,
- the power to enquire into the return includes power to enquire into the returns in relation to the periods of account of the worldwide groups which ought to have been made.

Amendment of self-assessment during enquiry to prevent loss of tax

- 41 (1) If after notice of enquiry has been given into an interest restriction return but before the enquiry is completed, an officer of Revenue and Customs forms the opinion that—

- (a) the amount stated in the self-assessment of a company as the amount of tax payable is insufficient,
 - (b) the deficiency is attributable to matters in relation to which the enquiry extends, and
 - (c) unless the assessment is immediately amended there is likely to be a loss of tax to the Crown,
- the officer may by notice to the company amend its self-assessment to make good the deficiency.
- (2) In sub-paragraph (1) the reference to a company is to a company that was a member of the group at any time in the period of the account in relation to which the interest restriction return was submitted.
 - (3) An appeal may be brought, by notice, against an amendment of a company's self-assessment by an officer of Revenue and Customs under this paragraph.
 - (4) Notice of appeal must be given –
 - (a) within 30 days after the amendment was notified to the company,
 - (b) to the officer of Revenue and Customs by whom the notice of amendment was given.
 - (5) None of the steps mentioned in section 49A(2)(a) to (c) of TMA 1970 (reviews of the matter or notification of appeal to tribunal) may be taken in relation to the appeal before the completion of the enquiry.
 - (6) In this paragraph “self-assessment” has the meaning given by paragraph 7 of Schedule 18 to FA 1998.

Revision of interest restriction return during enquiry

- 42 (1) This paragraph applies if a reporting company submits a revised interest restriction return at a time when an enquiry is in progress into the previous return.
- (2) The submission of the revised return does not restrict the scope of the enquiry but the revisions may be taken into account (together with any matter arising) in the enquiry.
- (3) So far as the revised return affects the tax payable by a company, it does not take effect until the enquiry is completed (and, accordingly, paragraph 64 has effect subject to this sub-paragraph).
- (4) But sub-paragraph (3) does not affect any claim by the company under section 59DA of TMA 1970 (claim for repayment in advance of liability being established).
- (5) The submission of a revised return whose effect is deferred under sub-paragraph (3) takes effect as follows –
 - (a) if the conclusions in the closure notice state either –
 - (i) that the revisions were not taken into account in the enquiry, or

- (ii) that no revision of the revised return is required arising from the enquiry,
the revision takes effect on the completion of the enquiry,
and
 - (b) in any other case, the revisions take effect as part of the steps required to be taken in order to give effect to the conclusions stated in the closure notice.
- (6) For the purposes of this paragraph the period during which an enquiry into an interest restriction return is in progress is the whole of the period –
 - (a) beginning with the day on which an officer of Revenue and Customs gives notice of enquiry into the return, and
 - (b) ending with the day on which the enquiry is completed.

Completion of enquiry

- 43 (1) An enquiry into an interest restriction return submitted by a reporting company is completed when an officer of Revenue and Customs by notice (a “closure notice”) –
- (a) informs the company that the officer has completed the enquiry, and
 - (b) states the officer’s conclusions.
- (2) The closure notice takes effect when it is issued.
- (3) If an officer of Revenue and Customs concludes that the return should have been made in relation to one or more different periods of account of the group, the closure notice must designate the period of account (or periods of account) in relation to which the return should have been made.
- (4) If an officer of Revenue and Customs concludes that an interest restriction return in relation to a worldwide group should have been submitted –
- (a) in relation to one or more different worldwide groups, or
 - (b) in relation to a different membership,
- the closure notice must designate each period of account of a worldwide group in relation to which an interest restriction return should have been made or in relation to which an interest restriction return should have been submitted in relation to a different membership.
- (5) If the officer concludes that the group in relation to which the return was submitted has a different membership, the designation under sub-paragraph (4) must also include details of the members of the group that the officer considers are UK group companies.
- (6) If the officer concludes that the return should have been submitted in relation to one or more different worldwide groups, the designation under sub-paragraph (4) must also include –
- (a) sufficient details to identify the different worldwide group or groups, and
 - (b) details of the members of the group that the officer considers are UK group companies.

- (7) A designation by a closure notice of a period of account under this paragraph must specify the dates on which the period of account begins and ends.
- (8) In this paragraph references to UK group companies, in relation to a period of account, do not include UK group companies that are dormant throughout the period.

Direction to complete enquiry

- 44
- (1) An application may be made at any time to the tribunal for a direction that an officer of Revenue and Customs gives a closure notice in respect of an enquiry into an interest restriction return within a specified period.
 - (2) The application is to be made by the reporting company for the period of account of the group in relation to which the return was submitted.
 - (3) The application is subject to the relevant provisions of Part 5 of TMA 1970 (see, in particular, section 48(2)(b) of that Act).
 - (4) The tribunal must give a direction unless satisfied that an officer of Revenue and Customs has reasonable grounds for not giving a closure notice within a specified period.

Conclusions of enquiry

- 45
- (1) This paragraph applies where a closure notice is given under paragraph 43 to a company by an officer.
 - (2) The closure notice must –
 - (a) state that, in the officer’s opinion, no steps are required to be taken by the company as a result of the enquiry, or
 - (b) state the steps that the company is required to take in order to give effect to the conclusions stated in the notice.
 - (3) The closure notice may (but need not) specify the allocated disallowance for particular companies specified in the notice.
 - (4) If –
 - (a) the return was made for the wrong period, and
 - (b) a period of account designated under paragraph 43(3) begins or ends at any time in that period,
 the closure notice must require the company to take steps to make the return one appropriate to that designated period of account.
 - (5) If there is more than one designated period of account within subparagraph (4), the closure notice must require the company to submit an interest restriction return in relation to each of those designated periods of account.
 - (6) If –
 - (a) a period of account of a worldwide group (“the relevant group”) is designated under paragraph 43(4),
 - (b) the company is a member of the relevant group for that period of account, and

- (c) condition A or B is met,
the closure notice must require the company to submit an interest restriction return in relation to the designated period of account of the relevant group.
- (7) Condition A is met if the UK group companies comprised in the relevant group were regarded as members of the worldwide group in relation to which the return was made.
- (8) Condition B is met if –
- (a) the relevant group includes UK group companies that were not regarded as members of the group in relation to which the return was made, and
 - (b) the ultimate parent of the relevant group is not the ultimate parent of a worldwide group in relation to which a reporting company has been appointed for a period of account that includes a time falling within the designated period of account of the relevant group.
- (9) If sub-paragraph (6) applies in relation to two or more designated periods of account of a worldwide group (whether those periods are of the same or different groups), the closure notice must require the company to submit separate interest restriction returns in relation to each of the designated periods of account.
- (10) If, as a result of this paragraph, a closure notice requires a company to submit an interest restriction return in relation to a period of account of a worldwide group, the company is treated for the purposes of this Part of this Act as if it had been appointed as the reporting company of the group in relation to the period.
- (11) For this purpose it does not matter whether the return that was subject to the enquiry was submitted in relation to a different worldwide group.
- (12) Sub-paragraph (10) is ignored in determining the period within which the return must be submitted (as to which, see instead paragraph 46(2)).

Interest restriction returns to be submitted to an officer of Revenue and Customs

- 46 (1) If, as a result of a closure notice given under paragraph 43, a company is required to submit one or more interest restriction returns, the company must submit the return or returns to an officer of Revenue and Customs that –
- (a) give effect to the conclusions stated in the notice, and
 - (b) contain such consequential provision as the company considers appropriate.
- (2) A return which is required to be submitted as a result of this paragraph is of no effect unless it is received by an officer of Revenue and Customs before the end of the period of 30 days beginning with the day on which the closure notice is given to the company.
- (3) A return submitted under this paragraph –

- (a) must indicate the respects in which it differs from the return that was the subject of the enquiry, and
 - (b) supersedes that return.
- (4) For provision dealing with cases where no return is submitted before the end of the period mentioned in sub-paragraph (2), see paragraph 52.
- (5) The time limits given by paragraphs 5(6) and 6(3) are subject to sub-paragraph (2).

Return in relation to a worldwide group: other entities part of another group

- 47 (1) This paragraph applies if—
- (a) an enquiry has been made into an interest restriction return (“the original return”) in relation to a period of account of a worldwide group (“the original group”),
 - (b) a closure notice has been given in respect of the enquiry that designates a period of account of a worldwide group under paragraph 43(4) (“the new group”),
 - (c) the new group consists of both UK group companies that were not regarded as members of the original group and other UK group companies, and
 - (d) the ultimate parent of the new group is the ultimate parent of a worldwide group (“the existing group”) in relation to which a reporting company has been appointed for a period of account that includes a time falling within the designated period of account of the new group.
- (2) An officer of Revenue and Customs must give a notice to that company appointing it as the reporting company in relation to each designated period of account of the new group.
- (3) The notice of appointment must be given within the period of 30 days beginning with the day on which the closure notice was given.
- (4) If—
- (a) an interest restriction return has been submitted in relation to a period of account of the existing group, and
 - (b) that period of account begins or ends at any time in a designated period of account of the new group,
- the return is to be treated as withdrawn.
- (5) Accordingly—
- (a) any notice of enquiry or closure notice in relation to the return are also to be treated as withdrawn,
 - (b) any appeal in respect of any matter stated in a closure notice in relation to the return is treated as withdrawn, and
 - (c) any determination of any such appeal is treated as being of no effect.
- (6) If—

- (a) an interest restriction return in relation to a period of account is treated as withdrawn as a result of sub-paragraph (4), and
 - (b) the period of account begins at any time before a designated period of account of the new group,
- the notice under sub-paragraph (2) is also to be treated as if it constituted, on the day on which it is given, the appointment of the company in relation to a period of account of the existing group beginning with that time and ending immediately before the beginning of the designated period of account.
- (7) If—
- (a) enquiries are open at any time in relation to more than one interest restriction return, and
 - (b) this paragraph is capable of applying by reference to a closure notice to be given in respect of any one of those enquiries (so that a worldwide group could be either the original group or the existing group),
- an officer of Revenue and Customs must select the company that, in the officer’s opinion, ought to be the reporting company in relation to the new group.
- (8) For this purpose an enquiry is “open” in relation to an interest restriction return if no closure notice has been given in relation to the enquiry.

Appeal against closure notice or notice under paragraph 47

- 48 (1) If—
- (a) a closure notice is given to a company under paragraph 43, and
 - (b) the notice is one that states the matters mentioned in paragraph 45(2)(b),
- the company may, by notice, bring an appeal against those matters.
- (2) If a notice is given to a company under paragraph 47, the company may, by notice, bring an appeal against the notice.
- (3) Notice of appeal under this paragraph must be given—
- (a) within 30 days after the matters were notified to the company,
 - (b) to the officer of Revenue and Customs by whom the notice in question was given.

New groups without existing reporting company

- 49 (1) This paragraph applies if—
- (a) a closure notice is given to a company under paragraph 43,
 - (b) a period of account of a worldwide group (“the new group”) is designated under paragraph 43(4) in the closure notice,
 - (c) the company is not a member of the new group at any time in that period of account, and

- (d) paragraph 47 does not apply.
- (2) An officer of Revenue and Customs may appoint a company to be the reporting company of the new group in relation to that period.
- (3) The appointment—
 - (a) must be of a company that was a UK group company at any time during that period and was not dormant throughout that period, and
 - (b) must be made before the end of the period of 3 months beginning with the day on which the closure notice is given to the company.

References to a reporting company where replaced

- 50 (1) This paragraph applies where—
- (a) a reporting company has been appointed in relation to a period of account of a worldwide group, and
 - (b) another company is appointed as a reporting company in place of that company in relation to that period of account.
- (2) Any reference in this Part of this Schedule (however expressed) to the reporting company in relation to that period of account at any time is to the company which is the reporting company at that time in relation to that period of account.

PART 5

DETERMINATIONS BY OFFICERS OF REVENUE AND CUSTOMS

Power of Revenue and Customs to make determinations where no return filed etc

- 51 (1) This paragraph applies where—
- (a) a reporting company has been appointed under this Part in relation to a period of account of a worldwide group,
 - (b) the filing date for the submission of an interest restriction return in relation to the period of account has passed (see paragraph 5(5)),
 - (c) either—
 - (i) no interest restriction return has been submitted under this Part in relation to the period of account, or
 - (ii) an interest restriction has been submitted under this Part in relation to the period of account, but it does not comply with the requirements of paragraph 16(2) (for example by omitting figures or including inaccurate figures), and
 - (d) an officer of Revenue and Customs considers that the group was subject to interest restrictions in the period of account.
- (2) An officer of Revenue and Customs may determine, to the best of the officer's information and belief—
- (a) a company's pro-rata share of the total disallowed amount of the group for the period of account, and

- (b) in relation to each relevant accounting period of the company, the accounting period's pro-rata share of the total disallowed amount.
- (3) If, as a result of the determination, an accounting period's pro-rata share of the total disallowed amount is not nil, the company must leave out of account tax-interest expense amounts in that period that, in total, equal that pro-rata share.
- (4) Notice of a determination under this paragraph must be sent to the company, and to the reporting company, stating the date on which the determination is made.
- (5) No determination under this paragraph may be made after the end of the period of 3 years beginning with the time mentioned in sub-paragraph (1)(b).

Power of Revenue and Customs to make determinations following enquiry

- 52 (1) This paragraph applies where –
- (a) a company is required, as a result of paragraph 45 (closure notice in respect of a return subject to enquiry), to submit one or more interest restriction returns,
 - (b) a worldwide group is subject to interest restrictions in a period of account for which a return is required to be submitted, and
 - (c) the period mentioned in paragraph 46(2) (“the return period”) has passed without the return being received by an officer of Revenue and Customs.
- (2) An officer of Revenue and Customs may determine, to the best of the officer's information and belief –
- (a) a company's pro-rata share of the total disallowed amount of the group for the period of account in question, and
 - (b) in relation to each relevant accounting period of the company, the accounting period's pro-rata share of the total disallowed amount.
- (3) If, as a result of the determination, an accounting period's pro-rata share of the total disallowed amount is not nil, the company must leave out of account tax-interest expense amounts in that period that, in total, equal that pro-rata share.
- (4) Notice of a determination under this paragraph must be sent to the company, and to the reporting company, stating the date on which the determination is made.
- (5) No determination under this paragraph may be made after the end of the period of 3 months beginning with the end of the return period.

Revision of interest restriction return following Revenue and Customs determination

- 53 (1) This paragraph applies where a notice of determination under paragraph 51 or 52 is sent to a company after the time limit in paragraph 5(6).

- (2) Despite the passing of that time limit, an interest restriction return submitted under paragraph 5 has effect if it is received by an officer of Revenue and Customs during the period of 12 months beginning with date on which the determination is made.

PART 6

INFORMATION POWERS EXERCISABLE BY MEMBERS OF GROUP

Provision of information to and by the reporting company

- 54 (1) The reporting company in relation to a period of account of a worldwide group may, by notice, require a company that was a UK group company at any time during the period to provide it with information that it needs for the purpose of exercising functions under or by virtue of this Part of this Act.
- (2) A notice under sub-paragraph (1) must specify the information to be provided.
- (3) The duty to comply with a notice under sub-paragraph (1) is enforceable by the reporting company.
- (4) As soon as reasonably practicable after submitting an interest restriction return to an officer of Revenue and Customs under any provision of this Schedule, the reporting company must send a copy of it to each company that was a UK group company at any time during the period of account.
- (5) If a reporting company receives a closure notice under paragraph 43, the reporting company must, as soon as reasonably practicable, send a copy of the notice to every company that was a UK group company at any time during the period of account that was subject to the enquiry.
- (6) The duty to comply with sub-paragraph (4) or (5) is enforceable by any person to whom the duty is owed.

Provision of information between members of group where no reporting company appointed

- 55 (1) This paragraph applies where condition A or B is met in relation to a period of account of a worldwide group.
- (2) Condition A is that –
- (a) no reporting company has been appointed under paragraph 1 or 2 in relation to the period of account, and
 - (b) the time limit in paragraph 1(4)(b) (time limit for appointment of reporting company by group) has passed.
- (3) Condition B is that –
- (a) a reporting company has been appointed under paragraph 1 or 2 in relation to the period of account,
 - (b) a full interest restriction return has not been submitted in accordance with this Part in relation to the period, and

- (c) the filing date for the submission of an interest restriction return in relation to the period has passed (see paragraph 5(5)).
- (4) A company that was a UK group company at any time during the period of account may, by notice, require any other such company to provide it with information that it needs for the purpose of determining whether, or the extent to which, it is required to leave tax-interest expense amounts out of account, or bring them into account, under this Part of this Act.
- (5) A notice under sub-paragraph (4) must specify the information to be provided.
- (6) The duty to comply with a notice under sub-paragraph (4) is enforceable by the company that sends the notice.

PART 7

INFORMATION POWERS EXERCISABLE BY OFFICERS OF REVENUE AND CUSTOMS

Power to obtain information and documents from members of worldwide group

- 56 (1) An officer of Revenue and Customs may, by notice, require a group member –
- (a) to provide information, or
 - (b) to produce a document,
- if the information or document is reasonably required by the officer for the purpose of checking an interest restriction return, or exercising any of the powers under this Part of this Act, in relation to a period of account of a worldwide group.
- (2) For the purposes of this Part of this Schedule a person is a “group member” if, in the opinion of an officer of Revenue and Customs, the person is or might be a member of the worldwide group at any time in the period of account.
- (3) A group member may (subject to the operation of any provision of Part 4 of Schedule 36 to FA 2008 as applied by paragraph 60(1) of this Schedule) be required to provide information, or produce a document, that relates to one or more other group companies.
- (4) A notice under this paragraph may be given to a person even if the person is not within the charge to corporation tax or income tax.
- (5) A notice under this paragraph may specify or describe the information or documents to be provided or produced.

Power to obtain information and documents from third parties

- 57 (1) An officer of Revenue and Customs may, by notice, require a third party –
- (a) to provide information, or
 - (b) to produce a document,
- if the information or document is reasonably required by the officer for the purpose of checking an interest restriction return, or

exercising any of the powers under this Part of this Act, in relation to a period of account of a worldwide group.

- (2) A person is a “third party” if the person is not a group member at any time in the period of account.
- (3) A notice may not be given under this paragraph unless—
 - (a) a company which is a UK group company of the group at any time in the period of account agrees to the giving of the notice, or
 - (b) on an application made by an officer of Revenue and Customs, the tribunal approves the giving of the notice.
- (4) The tribunal may not approve the giving of a notice to a third party unless—
 - (a) the tribunal is satisfied that, in the circumstances, the officer giving the notice is justified in doing so, and
 - (b) either the requirements of sub-paragraph (5) are met or the tribunal is satisfied that it is appropriate to dispense with meeting those requirements because to meet them might prejudice the assessment or collection of tax.
- (5) The requirements in this sub-paragraph are met if—
 - (a) the third party has been told that the information or documents referred to in the notice are required,
 - (b) the third party has been given a reasonable opportunity to make representations to an officer of Revenue and Customs,
 - (c) the tribunal has been given a summary of any representations made by the third party, and
 - (d) a company which is a UK group company of the group at any time in the period of account has been given a summary of the reasons why the information and documents are required.
- (6) Sub-paragraph (5)(d) does not apply if an officer of Revenue and Customs has insufficient information to identify a company mentioned in that paragraph.
- (7) No notice of the application for the approval of the tribunal needs to be given to the third party by an officer of Revenue and Customs.
- (8) A notice under this paragraph to the third party must give details of the worldwide group unless—
 - (a) the notice is approved by the tribunal, and
 - (b) the tribunal is satisfied that no details should be given because to do so might seriously prejudice the assessment or collection of tax.
- (9) An officer of Revenue and Customs must give a copy of a notice under this paragraph to a company which is a UK group company of the group at any time in the period of account unless—
 - (a) the tribunal has approved the notice and is satisfied that no copy should be given because to do so might prejudice the assessment or collection of tax, or

- (b) an officer of Revenue and Customs has insufficient information to identify such a company.
- (10) A decision of the tribunal under this paragraph is final (despite the provisions of sections 11 and 13 of the Tribunals, Courts and Enforcement Act 2007).
- (11) A notice under this paragraph—
- (a) may specify or describe the information or documents to be provided or produced, and
 - (b) if given with the approval of the tribunal, must state that fact.

Notices following submitted interest restriction returns

- 58 (1) The general rule is that, if an interest restriction return in respect of a period of account of a worldwide group has been received by an officer of Revenue and Customs, a notice under paragraph 56 or 57 may not be given in relation to the period of the account of the group.
- (2) But the general rule does not apply if—
- (a) a notice of enquiry has been given in respect of the return, and
 - (b) the enquiry has not been completed.

Appeals

- 59 (1) A group member may appeal against a notice under paragraph 56.
- (2) A person to whom a notice is given under paragraph 57 in a case where the tribunal has not approved the giving of the notice may appeal against the notice on the ground that it would be unduly onerous to comply with it.
- (3) No appeal may be made under this paragraph in relation to a requirement to provide any information, or produce any documents, that forms part of the statutory records of any company which is a UK group company of the group at any time in the period of account.
- (4) “Statutory records” has the same meaning given by paragraph 62 of Schedule 36 to FA 2008.
- (5) In this Part of this Schedule references to an appeal against a notice include an appeal against a requirement of the notice.

Application of provisions of Schedule 36 to FA 2008

- 60 (1) The following provisions of Schedule 36 to FA 2008 (information and inspection powers) apply in relation to notices under paragraph 56 or 57—
- (a) paragraph 7 (complying with notices),
 - (b) paragraph 8 (producing copies of documents),
 - (c) paragraph 15 (power to copy documents),
 - (d) paragraph 16 (power to remove documents),

- (e) paragraph 18 (documents not in person’s possession or power),
 - (f) paragraph 19 (types of information),
 - (g) paragraph 20 (old documents),
 - (h) paragraph 23 (privileged communications),
 - (i) paragraphs 24 to 27 (auditors and tax advisers),
 - (j) every paragraph contained in Part 7 (penalties),
 - (k) every paragraph contained in Part 8 (offence), and
 - (l) paragraph 56 (application of provisions of TMA 1970).
- (2) Paragraph 32 of Schedule 36 to FA 2008 (procedure on appeals) applies in relation to an appeal under this Part of this Schedule against a notice under this Part of this Schedule.

References to checking an interest restriction return etc

- 61 (1) For the purposes of this Part of this Schedule references to checking an interest restriction return include—
- (a) determining whether or not an interest restriction return should be submitted in relation to a period of account of a worldwide group,
 - (b) determining whether or not a worldwide group is, or may be, subject to interest restrictions in a period of account, (and, if so, determining the total disallowed amount of the group),
 - (c) determining the membership of a worldwide group (or determining the members that are UK group companies), and
 - (d) determining any other question that is relevant to the operation of this Part of this Schedule in relation to an interest restriction return or anything required to be included in it.
- (2) For the purposes of this Part of this Schedule references to a worldwide group include one that an officer of Revenue and Customs suspects may exist.

PART 8

COMPANY TAX RETURNS

Elections under section 375, 377 or 380

- 62 The following elections (or their revocation) must be made by a company in its company tax return (whether as originally made or by amendment)—
- (a) an election under section 375 (a non-consenting company leaving pro-rata share of total disallowed amount out of account),
 - (b) an election under section 377 (a company specifying tax-interest expense amounts to be left out of account), and
 - (c) an election under section 380 (a company specifying tax-interest expense amounts to be brought into account).

Amendments to take account of operation of this Part of this Act (including elections)

- 63 (1) If—
- (a) a company makes an election under section 375 in relation to an accounting period, and
 - (b) the company has already delivered a company tax return for the period,
- the company must amend its company tax return to take account of the election.
- (2) The amendment must be made before the time limit for making the election given by subsection (5) of that section.
- (3) If—
- (a) a company is required by section 376 to leave an amount out of account in an accounting period, and
 - (b) the company has already delivered a company tax return for the period,
- the company must amend its company tax return to take account of the election.
- (4) The amendment must be made before the end of the period of 3 months beginning with the passing of the filing date as mentioned in subsection (1)(b) of that section.
- (5) If—
- (a) a company makes (or revokes) an election under section 377 or 380 in relation to an accounting period, and
 - (b) the company has already delivered a company tax return for the period,
- the company may amend its company tax return to take account of the election (or revocation) before the end of the period of 3 months beginning with the day on which it makes the election.
- (6) The time limit for amending a company tax return given by paragraph 15(4) of Schedule 18 to FA 1998 is subject to the time limits given by this paragraph.

Cases where company treated as amending return

- 64 (1) If—
- (a) a company has delivered a company tax return for an accounting period, but
 - (b) as a result of the submission of an interest restriction return, information contained in the company tax return is incorrect (for example, there is a change in the amount of profits on which corporation tax is chargeable),
- the company is treated as having amended its company tax return for the accounting period so as to correct the information.
- (2) If—
- (a) a notice of determination under paragraph 51 or 52 is sent to a company in relation to an accounting period, and
 - (b) the company has already delivered a company tax return for the period,

the company is treated as having amended its company tax return to take account of the determination.

Regulations for purposes of paragraph 64 etc

- 65 (1) The Commissioners may by regulations—
- (a) make provision generally for the purposes of paragraph 64, and
 - (b) make provision for other cases where a company is to be treated as having amended its company tax return.
- (2) The provision that may be made by the regulations includes provision—
- (a) permitting or requiring the company to deliver an amended company tax return for the accounting period;
 - (b) specifying amendments that may or must be made in the return;
 - (c) specifying a time limit for the delivery of the return that is later than that determined under paragraph 15(4) of Schedule 18 to FA 1998 (amendment of return by company).

Consequential claims to company tax returns

- 66 (1) This paragraph applies if—
- (a) a company amends, or is treated as amending, its company tax return for an accounting period in consequence of a closure notice given in respect of an interest restriction return under paragraph 43 or a notice of determination sent to the company under paragraph 51 or 52, and
 - (b) the amendment has the effect of increasing the amount of corporation tax payable by the company for the accounting period.
- (2) Any qualifying claim may be made or given within the period of one year beginning with the day on which the company receives a copy of the closure notice under paragraph 54(5) or the notice of determination.
- (3) Any qualifying claim previously made which is not irrevocable—
- (a) may be revoked or varied within that one-year period, and
 - (b) if it is revoked or varied, must be done so in the same manner as it was made and by or with the consent of the same person or persons who made or consented to it (or, if a person has died, by or with the consent of the person's personal representatives).
- (4) For the purposes of this paragraph a claim is a “qualifying” claim if its making, revocation or variation has the effect of reducing the liability of the company to corporation tax for the accounting period (whether or not it also reduces the liability to tax of the company for other periods).
- (5) But a claim is not a “qualifying” claim if—

- (a) the making, revocation or variation of the claim would alter the liability to tax of any person other than the company, or
 - (b) the making, revocation or variation of the claim is such that, if it were to be made, revoked or varied, the total of the reductions in liability to tax of the company would exceed the additional liability to corporation tax resulting from the amendment.
- (6) If a qualifying claim is made, revoked or varied as a result of this paragraph, all such adjustments must be made as are required to take account of the effect of taking that action on the liability of the company to tax for any period.
- (7) The adjustments may be made by way of discharge or repayment of tax or the making of amendments, assessments or otherwise.
- (8) The provisions of TMA 1970 relating to appeals against decisions on claims apply with any necessary modifications to a decision on the revocation or variation of a claim as a result of this paragraph.
- (9) In this paragraph (except in sub-paragraph (8)) “claim” includes an election, an application and a notice, and references to making a claim are to be read accordingly.
- (10) In this paragraph “tax” (except in the expression “corporation tax”) includes income tax and capital gains tax.

Meaning of “company tax return”

- 67 In this Schedule “company tax return” has the meaning given by paragraph 3 of Schedule 18 to FA 1998.

PART 9

SUPPLEMENTARY

Double jeopardy

- 68 A person is not liable to a penalty under any provision of this Schedule in respect of anything in respect of which the person has been convicted of an offence.

Notice of appeal

- 69 Notice of an appeal under this Schedule must specify the grounds of appeal.

Conclusiveness of amounts stated in interest restriction return

- 70 (1) This paragraph applies to an amount stated in an interest restriction return other than one that is also stated in a company tax return.
- (2) If the amount can no longer be altered, it is taken to be conclusively determined for the purposes of the Corporation Tax Acts.

- (3) An amount is regarded as one that can no longer be altered if –
- (a) the period specified in paragraph 5(6) or 6(3) (time limit for submitting interest restriction returns) has passed,
 - (b) an enquiry into the interest restriction return has been completed,
 - (c) if an officer of Revenue and Customs gives a closure notice stating the matters mentioned in paragraph 45(2)(b), the period within which an appeal may be brought against those matters has ended, and
 - (d) if an appeal is brought, the appeal has been finally determined.
- (4) If an interest restriction return is submitted under a provision that allows its submission after the end of the period specified in paragraph 5(6) or 6(3), an amount affected by the return ceases to be regarded as one that can no longer be altered until whichever is the last of the following –
- (a) the end of the period within which notice of enquiry into the return may be given (ignoring paragraph 38),
 - (b) if notice of enquiry is given, the completion of the enquiry,
 - (c) if an officer of Revenue and Customs gives a closure notice stating the matters mentioned in paragraph 45(2)(b), the end of the period within which an appeal against those matters may be brought, and
 - (d) if an appeal is brought, the date on which the appeal is finally determined.
- (5) Nothing in this paragraph affects –
- (a) the power under paragraph 38 (extended time limits for opening enquiries: discovery of errors), or
 - (b) any power to make a determination under paragraph 51 or 52 (determinations by officers of Revenue and Customs).”

PART 3

CONSEQUENTIAL AMENDMENTS

TMA 1970

- 3 (1) In section 98 of TMA 1970 (special returns, etc), in the table in subsection (5), in the first column, the entry relating to regulations under section 283, 284, 285, 295 or 297 of TIOPA 2010 is repealed.
- (2) In consequence of sub-paragraph (1), paragraph 157(3) of Schedule 8 to TIOPA 2010 is repealed.

FA 1998

- 4 In paragraph 88 of Schedule 18 to FA 1998 (conclusiveness of amounts stated in company tax returns), at the end insert –
- “(9) Nothing in this paragraph affects the operation of any provision of Part 10 of TIOPA 2010 (corporate interest restriction).”

CTA 2009

- 5 In section A1 of CTA 2009 (overview of the Corporation Tax Acts), in subsection (2) –
- (a) omit paragraph (i), and
 - (b) after paragraph (ja) insert –
 - “(jb) Part 10 of that Act (corporate interest restriction),”.

CTA 2010

- 6 CTA 2010 is amended as follows.
- 7 In section 938N (group mismatch schemes: priority), for paragraph (e) substitute –
- “(e) Part 10 of that Act (corporate interest restriction).”
- 8 In section 938V (tax mismatch schemes: priority), for paragraph (d) substitute –
- “(d) Part 10 of that Act (corporate interest restriction).”

TIOPA 2010

- 9 TIOPA 2010 is amended as follows.
- 10 In section 1 (overview of Act), in subsection (1) –
- (a) omit paragraph (d) and the “and” at the end of that paragraph, and
 - (b) after paragraph (e) insert “, and
 - (f) Part 10 (corporate interest restriction).”
- 11 In section 155 (transfer pricing: “potential advantage” in relation to United Kingdom taxation), in subsection (6), for paragraph (a) substitute –
- “(a) Part 10 (corporate interest restriction),”.
- 12 In section 157 (direct participation) –
- (a) omit the “and” at the end of paragraph (c), and
 - (b) after paragraph (d) insert “, and
 - (e) in Part 10, section 449(4).”
- 13 In section 159 (indirect participation: potential direct participant) –
- (a) omit the “and” at the end of paragraph (c), and
 - (b) after paragraph (d) insert “, and
 - (e) in Part 10, section 449(4).”
- 14 In section 160 (indirect participation: one of several major participants) –
- (a) omit the “and” at the end of paragraph (c), and
 - (b) after paragraph (d) insert “, and
 - (e) in Part 10, section 449(4).”
- 15 In section 259CB (financial instruments: hybrid or otherwise impermissible deduction/ non-inclusion mismatches and their extent), in subsection (6), for paragraph (e) substitute –
- “(e) Part 10 (corporate interest restriction).”
- 16 In section 259DC (hybrid transfer deduction/ non-inclusion mismatches and

- their extent), in subsection (5), for paragraph (d) substitute –
“(d) Part 10 (corporate interest restriction).”
- 17 (1) Part 7 (tax treatment of financing costs and income) is repealed, and, accordingly, the following provisions are also repealed –
- (a) section 1(1)(d) (overview);
 - (b) in Schedule 9, Part 7 (transitional provision);
 - (c) in Schedule 11, Part 5 (index of defined expressions).
- (2) In consequence of sub-paragraph (1), the following enactments (which amend provisions repealed by that sub-paragraph) are repealed –
- (a) in F(No.3)A 2010, section 11 and Schedule 5;
 - (b) in FA 2011, in Schedule 13, paragraphs 29 and 30;
 - (c) in FA 2012 –
 - (i) section 31 and Schedule 5;
 - (ii) in Schedule 16, paragraphs 242 and 243(a);
 - (iii) in Schedule 20, paragraphs 43 to 45;
 - (d) in FA 2013, section 44;
 - (e) in FA 2014, section 39.
- (3) Also in consequence of sub-paragraph (1), the following regulations (which are made under powers contained in provisions repealed by that sub-paragraph) are revoked –
- (a) the Corporation Tax (Financing Costs and Income) Regulations 2009 (S.I. 2009/3173);
 - (b) the Corporation Tax (Tax Treatment of Financing Costs and Income) (Acceptable Financial Statements) Regulations 2009 (S.I. 2009/3217);
 - (c) the Corporation Tax (Exclusion from Short-Term Loan Relationships) Regulations 2009 (S.I. 2009/3313);
 - (d) the Tax Treatment of Financing Costs and Income (Available Amount) Regulations 2010 (S.I. 2010/2929);
 - (e) the Tax Treatment of Financing Costs and Income (Correction of Mismatches) Regulations 2010 (S.I. 2010/3025);
 - (f) the Taxation (International and Other Provisions) Act 2010 (Part 7) (Amendment) Regulations 2012 (S.I. 2012/3045);
 - (g) the Tax Treatment of Financing Costs and Income (Correction of Mismatches: Partnerships and Pensions) Regulations 2012 (S.I. 2012/3111);
 - (h) the Tax Treatment of Financing Costs and Income (Excluded Schemes) Regulations 2013 (S.I. 2013/2892);
 - (i) the Tax Treatment of Financing Costs and Income (Change of Accounting Standards: Investment Entities) Regulations 2015 (S.I. 2015/662).
- 18 (1) Chapter 3 of Part 9A (CFCs: the CFC charge gateway) is amended as follows.
- (2) In section 371CE (which makes provision for determining whether Chapter 6 of Part 9A applies) –
- (a) in subsection (2)(a), after “period” insert “(see section 371CEA)”, and
 - (b) omit subsections (4) and (5).

(3) After section 371CE insert –

“371CEA Section 371CE: meaning of “group treasury company”

- (1) This section makes provision for determining whether the CFC is a group treasury company in the accounting period for the purposes of section 371CE.
- (2) The CFC is a group treasury company in the accounting period if –
 - (a) it is a member of a worldwide group in relation to a period of account in which the accounting period wholly or partly falls,
 - (b) throughout the accounting period –
 - (i) all, or substantially all, of the activities undertaken by it consist of treasury activities undertaken for the group, and
 - (ii) all, or substantially all, of its assets and liabilities relate to such activities, and
 - (c) at least 90% of its relevant income for the accounting period is group treasury revenue.
- (3) For the purposes of this section a company undertakes treasury activities for the group if it does one or more of the following in relation to, or on behalf of, the group or any of its members –
 - (a) managing surplus deposits of money or overdrafts,
 - (b) making or receiving deposits of money,
 - (c) lending money,
 - (d) subscribing for or holding shares in a company which is a UK group company undertaking treasury activities for the group at least 90% of whose relevant income is group treasury revenue for its relevant accounting period,
 - (e) investing in debt securities, and
 - (f) hedging assets, liabilities, income or expenses.
- (4) For the purposes of this section “group treasury revenue”, in relation to a company, means revenue –
 - (a) arising from the treasury activities that the company undertakes for the group, and
 - (b) accounted for as such under generally accepted accounting practice,
 before any deduction (whether for expenses or otherwise).
- (5) But revenue consisting of a dividend or other distribution is not group treasury revenue of the company unless it is from a company that meets the conditions in subsection (3)(d).
- (6) In this section –
 - “debt security” has the same meaning as in the Handbook made by the Financial Conduct Authority or Prudential Regulation Authority under the Financial Services and Markets Act 2000 (as the Handbook in question has effect from time to time),
 - “period of account” has the same meaning as in Part 10,
 - “relevant accounting period” has the same meaning as in Part 10,
 - “relevant income”, in relation to a company, means income –

- (a) arising from the activities of the company, and
 (b) accounted for as such under generally accepted accounting practice,
 before any deduction (whether for expenses or otherwise),
 “UK group company” has the same meaning as in Part 10, and
 “worldwide group” has the same meaning as in Part 10.”
- (4) In consequence of the amendments made by this paragraph, in Schedule 47 to FA 2013, omit paragraph 17.
- 19 (1) Chapter 9 of Part 9A (CFCs: exemption for profits from qualifying loan relationships) is amended as follows.

(2) For section 371IE substitute –

“371IE The “matched interest profits” exemption

- (1) This section applies if –
- (a) there are profits of qualifying loan relationships which are not exempt after sections 371IB and 371ID have been applied to each qualifying loan relationship,
 - (b) the relevant corporation tax accounting period (as defined in section 371BC(3)) of company C is a relevant accounting period of it in relation to a period of account of a worldwide group,
 - (c) the CFC’s accounting period ends in that period of account, and
 - (d) apart from this section, the profits mentioned in subsection (1)(a) would be included in the chargeable profits of the CFC.
- (2) In this section “the matched interest profits” means so much of the profits mentioned in subsection (1)(a) as remain after excluded credits and excluded debits are left out of account.
- (3) If the aggregate net tax-interest expense of the group for the period is nil, all of the matched interest profits are exempt.
- (4) Otherwise, there is a more limited exemption if the relevant proportion of the matched interest profits apportioned to C or other relevant chargeable companies exceeds the aggregate net tax-interest expense of the group for the period.
- (5) For the purposes of this section “the relevant proportion of the matched interest profits apportioned to C or other relevant chargeable companies” is determined as follows.

Step 1

For each relevant chargeable company (including C) determine the percentage (P%) of the CFC’s chargeable profits that are apportioned to the company under step 5 of section 371BC(1).

Step 2

For each relevant chargeable company (including C) multiply P% by the matched interest profits.

Step 3

The sum of the amounts for each company found under step 2 is “the relevant proportion of the matched interest profits apportioned to C or other relevant chargeable companies”.

- (6) For this purposes of this section a company is a relevant chargeable company if the relevant corporation tax accounting period of the company is a relevant accounting period in relation to the period of account of the group.
- (7) The limited exemption is given effect by treating the matched interest profits as equal to the amount found by multiplying the amount that they would otherwise be by –

$$\frac{E}{\text{RPMIP}}$$

where –

E is the amount of the excess mentioned in subsection (4), and
RPMIP is the relevant proportion of the matched interest profits apportioned to C or other relevant chargeable companies.

- (8) For the purposes of this section the aggregate net tax-interest expense of a worldwide group for a period of account is determined in accordance with Part 10 (corporate interest restriction) but without regard to debits, credits or other amounts arising from –
- (a) banking business carried on by a company within the charge to corporation tax, or
 - (b) insurance business carried on by a company within the charge to corporation tax.
- (9) For the purposes of this section –
- “excluded credit” has the meaning given by section 386(3),
 - “excluded debit” has the meaning given by section 383(3), and
 - “period of account”, “relevant accounting period” and “worldwide group” have the same meanings as in Part 10.”
- (3) In section 371IJ (claims), in subsection (6), for “the tested income amount or the tested expense amount mentioned in section 371IE(2)” substitute “the aggregate net tax-interest expense that is mentioned in section 371IE”.
- 20 (1) Chapter 19 of Part 9A (CFCs: assumed taxable total profits, assumed total profits and the corporation tax assumptions) is amended as follows.
- (2) In section 371SL (group relief etc), at the end insert –
- “(4) This section is subject to section 371SLA (corporate interest restriction).”
- (3) After section 371SL insert –
- “371SLA Corporate interest restriction**
- (1) This section applies for the purpose of applying Part 10 (corporate interest restriction).
 - (2) Assume –
 - (a) that the CFC is a member of a worldwide group for a period of account of which it would be a member if section 371SL were ignored, and
 - (b) that the CFC is the only UK group company in the period (within the meaning of that Part).

(3) Assume also that Part 10 applies as if subsections (2) and (3) of section 392 (interest capacity of the group: the de minimis amount) were omitted.”

21 (1) In consequence of the insertion of a new Part 10 of TIOPA 2010 by Part 1 of this Schedule, the existing Part 10 of that Act becomes a new Part 11.

(2) The following provisions of TIOPA 2010 are repealed –

(a) the existing sections 375 and 376 (which contain powers that are no longer exercisable), and

(b) the existing section 381(2)(e) and (f) (which refer to those sections); but the repeals made by this sub-paragraph are not to affect the continuing effect of any orders that have been made under section 375 or 376.

(3) As a result of the provision made by sub-paragraphs (1) and (2), the following provisions of TIOPA 2010 are renumbered as follows –

(a) the existing section 372 becomes section 478;

(b) the existing section 373 becomes section 479;

(c) the existing section 374 becomes section 480;

(d) the existing section 377 becomes section 481;

(e) the existing section 378 becomes section 482;

(f) the existing section 379 becomes section 483;

(g) the existing section 380 becomes section 484;

(h) the existing section 381 becomes section 485; and

(i) the existing section 382 becomes section 486.

(4) Consequently –

(a) in section 287(2A) of TCGA 1992, for “section 372” substitute “section 478”;

(b) in section 1014(2)(fa) of ITA 2007, for “section 372” substitute “section 478”;

(c) in section 1171(2)(f) of CTA 2010, for “section 372” substitute “section 478”;

(d) in section 1 of TIOPA 2010 –

(i) in subsection (4), for “Part 10” substitute “Part 11”;

(ii) in subsection (5), for “section 373” substitute “section 479”

(e) in section 381(2) of TIOPA 2010 –

(i) in paragraph (a), for “372” substitute “478”;

(ii) in paragraph (b), for “373” substitute “479”;

(iii) in paragraph (d), for “374” substitute “480”;

(iv) in paragraph (g), for “377(2) and (3)” substitute “481(2) and (3)”;

(v) in paragraph (h), for “380” substitute “484”;

(vi) in paragraph (i), for “382” substitute “486”.

(5) In section 379(1) and (2) (index of defined expressions), for “8” substitute “10”.

22 In Schedule 11, at the end insert –

“PART 7

CORPORATE INTEREST RESTRICTION: INDEX OF DEFINED EXPRESSIONS USED IN
PART 10

abbreviated interest restriction return (in Part 10)	paragraph 16 of Schedule 7A
abbreviated return election (in Part 10)	paragraph 15 of Schedule 7A
accounting period (in Part 10)	Chapter 2 of Part 2 of CTA 2009 (applied by section 1119 of CTA 2010)
adjusted net group-interest expense of a worldwide group (in Part 10)	section 409
aggregate net tax-interest expense of a worldwide group (in Part 10)	section 390
aggregate net tax-interest income of a worldwide group (in Part 10)	section 390
aggregate tax-EBITDA of a worldwide group (in Part 10)	section 401
allocated reactivation of company for period of account (in Part 10)	paragraph 21 of Schedule 7A
allowable loss (in Part 10)	TCGA 1992 (applied by section 1119 of CTA 2010)
associated (in Chapter 8 of Part 10)	section 438(2)
amount available for reactivation of company in period of account (in Part 10)	paragraph 22 of Schedule 7A
available for reactivation, in relation to disallowed interest (in Part 10)	paragraph 22 of Schedule 7A
available, in relation to interest allowance (in Chapter 4 of Part 10)	section 393
balance sheet (in Chapter 8 of Part 10)	section 438(1)

chargeable gain (in Part 10)	TCGA 1992 (applied by section 1119 of CTA 2010)
the Commissioners (in Part 10)	section 474
company (in Part 10)	section 1121 of CTA 2010
company tax return (in Schedule 7A)	paragraph 67 of Schedule 7A
consenting company (in Part 10)	paragraph 7 of Schedule 7A
consolidated partnership (in Part 10)	section 424
consolidated subsidiary of another entity (in Chapter 11 of Part 10)	section 459
derivative contract (in Part 10)	Part 7 of CTA 2009 (applied by section 1119 of CTA 2010)
disallowed, in relation to tax-interest expense amount (in Part 10)	section 378
financial asset (in Chapter 8 of Part 10)	section 438(1)
financial statements of a worldwide group (in Part 10)	section 463
fixed ratio method (in Part 10)	section 397
for accounting purposes (in Part 10)	section 1127(4) of CTA 2010
full interest restriction return (in Part 10)	paragraph 16 of Schedule 7A
generally accepted accounting practice (in Part 10)	section 1127(1) and (3) of CTA 2010
group ratio election (in Part 10)	paragraph 10 of Schedule 7A
group ratio (blended) election (in Part 10)	paragraph 11 of Schedule 7A
group ratio method (in Part 10)	section 398
group ratio percentage (in Part 10)	section 398

IAS financial statements (in Part 10)	section 469
impairment loss (in Part 10)	section 391
income (in Part 10)	section 1119 of CTA 2010
interest allowance of a worldwide group (in Part 10)	section 396
interest allowance (alternative calculation) election (in Part 10)	paragraph 12 of Schedule 7A
interest allowance (consolidated partnerships) election (in Part 10)	paragraph 14 of Schedule 7A
interest allowance (non-consolidated investment) election (in Part 10)	paragraph 13 of Schedule 7A
interest capacity of a worldwide group (in Part 10)	section 392
interest reactivation cap of a worldwide group (in Part 10)	section 373
interest restriction return (in Part 10)	section 474
international accounting standards (in Part 10)	section 1127(5) of CTA 2010
investor in a worldwide group (in Part 10)	section 400
loan relationship (in Part 10)	Part 5 of CTA 2009 (applied by section 1119 of CTA 2010)
loan relationships or other financing arrangements (in Chapter 8 of Part 10)	section 438(1)
local authority (in Part 10)	section 1130 of CTA 2010
member of a worldwide group (in Part 10)	section 457(3)(a)
multi-company worldwide group (in Part 10)	section 457(3)(d)
net group-interest expense of a worldwide group (in Part 10)	section 406
net tax-interest expense of a company (in Part 10)	section 389
net tax-interest income of a company (in Part 10)	section 389
non-consenting company (in Part 10)	paragraph 7 of Schedule 7A

non-consolidated associate of a worldwide group (in Part 10)	section 423
non-consolidated subsidiary of an entity (in Chapter 7)	section 459
notice (in Part 10)	section 1119 of CTA 2010
period of account of a worldwide group (in Part 10)	section 463
pro-rata share of company (of total disallowed amount) (in Part 10)	paragraph 19 of Schedule 7A
pro-rata share of accounting period (of total disallowed amount) (in Part 10)	paragraph 20 of Schedule 7A
provision (in relation to a public infrastructure asset) (in Chapter 8 of Part 10)	section 429
public infrastructure asset (in Chapter 8 of Part 10)	section 429
qualifying charitable donation (in Part 10)	Part 6 of CTA 2010 (applied by section 1119 of CTA 2010)
qualifying infrastructure company (in Chapter 8 of Part 10)	section 427
qualifying infrastructure activity (in Chapter 8 of Part 10)	section 429
recognised, in financial statements (in Part 10)	section 470
recognised pension scheme (in Part 10)	section 150(2) of FA 2004 (applied by section 1119 of CTA 2010)
recognised stock exchange (in Part 10)	section 1137 of CTA 2010
related party (in Part 10)	sections 448 to 456
related party investor (in Part 10)	section 400
relevant asset (in Chapter 7 of Part 10)	section 412
relevant accounting period (in Part 10)	section 471
relevant expense matter (in Chapter 7 of Part 10)	section 407
relevant income matter (in Chapter 7 of Part 10)	section 407
relevant public body (in Chapter 8 of Part 10)	sections 438(3) and 472

relevant public body (in Chapter 11 of Part 10)	sections 456 and 472
reporting company (in Part 10)	section 474
the return period (in Part 10)	section 474
service concession agreement (in Part 10)	section 474
share, of an investor in a worldwide group (in Part 10)	section 400
single-company worldwide group (in Part 10)	section 457(3)(c)
subject to interest reactivations (in Part 10)	section 373
subject to interest restrictions (in Part 10)	section 373
tax-EBITDA of a company (in Part 10)	section 402
tax-interest expense amount of a company (in Part 10)	section 382
tax-interest income amount of a company (in Part 10)	section 385
trade (in Part 10)	section 1119 of CTA 2010
total disallowed amount of a worldwide group (in Part 10)	section 373
UK generally accepted accounting practice (in Part 10)	section 1127(2) of CTA 2010
UK group company (in Part 10)	section 473
UK property business (in Part 10)	Chapter 2 of Part 4 of CTA 2009 (applied by section 1119 of CTA 2010)
the ultimate parent, of a worldwide group (in Part 10)	section 457(3)(b)
unexpired (in Chapter 4 of Part 10)	section 395
used (in Chapter 4 of Part 10)	section 394
within the charge to corporation tax (in Part 10)	section 1167 of CTA 2010
a worldwide group (in Part 10)	section 457”

PART 4

COMMENCEMENT AND TRANSITIONAL PROVISION

Commencement

- 23 (1) The amendments made by this Schedule have effect in relation to periods of account of worldwide groups that begin on or after 1 April 2017.
- (2) The following provisions of this paragraph apply if financial statements of a worldwide group are drawn up in respect of a period that begins before, and ends on or after, 1 April 2017.
- (3) In this paragraph –
- (a) “the group’s actual financial statements” means the financial statements mentioned in sub-paragraph (2);
 - (b) “the straddling period of account” means the period mentioned in that sub-paragraph.
- (4) For the purposes of the amendments made by this Schedule the group’s actual financial statements are treated as not having been drawn up.
- (5) Instead, financial statements of the worldwide group are treated for those purposes as having been drawn up in respect of each of the following periods –
- (a) the period beginning at the time the straddling period of account begins and ending with 31 March 2017, and
 - (b) the period beginning with 1 April 2017 and ending at the time the straddling period of account ends.
- (6) Where condition C or D in section 464 of TIOPA 2010 (as inserted by Part 1 of this Schedule) is met in relation to the group’s actual financial statements, the financial statements treated as drawn up by sub-paragraph (5) are treated as drawn up in accordance with the generally accepted accounting principles and practice with which the group’s actual financial statements were drawn up.
- (7) Where neither of those conditions is met in relation to the group’s actual financial statements, the financial statements treated as drawn up by sub-paragraph (5) are IAS financial statements within the meaning given by section 469 of that Act (as inserted by Part 1 of this Schedule).
- (8) Where, for the purpose of determining amounts recognised in the financial statements treated as drawn up by sub-paragraph (5), it is expedient to apportion any amount that is recognised in the group’s actual financial statements, the apportionment is to be made in accordance with section 1172 of CTA 2010 (apportionment on a time basis).
- (9) But if it appears that apportionment in accordance with that section would work unjustly or unreasonably, the apportionment is to be made on a just and reasonable basis.
- (10) For the purposes of this paragraph as it has effect in relation to Part 10 of TIOPA 2010 (as inserted by Parts 1 and 2 of this Schedule), expressions used in this paragraph and in Part 10 of that Act have the same meaning as in Part 10 of that Act.

- (11) For the purposes of this paragraph as it has effect in relation to Part 7 of TIOPA 2010 (and the other enactments repealed or revoked by paragraph 17(1) of this Schedule) –
- (a) “the worldwide group” has the same meaning as in that Part (see section 337 of that Act);
 - (b) section 346 of that Act (meaning of references to financial statements of the worldwide group and to a period of account of the worldwide group) applies;
 - (c) the references to condition C or D in section 464 of that Act (as inserted by Part 1 of this Schedule) are references to condition B, C or D in regulation 2 of the Corporation Tax (Tax Treatment of Financing Costs and Income) (Acceptable Financial Statements) Regulations 2009 (S.I. 2009/3217); and
 - (d) the reference to IAS financial statements within the meaning given by section 469 of that Act (as inserted by Part 1 of this Schedule) is a reference to IAS financial statements within the meaning given by section 348(5) or (5A) of that Act.

Change of accounting policy

- 24 (1) For the purposes of Part 10 of TIOPA 2010 (as inserted by Parts 1 and 2 of this Schedule) a debit or credit to which this paragraph applies is to be ignored.
- (2) This paragraph applies to a debit or credit if –
- (a) it is brought into account under the Loan Relationships and Derivative Contracts (Change of Accounting Practice) Regulations 2004 (S.I. 2004/3271), and
 - (b) the later period, in relation to the change of accounting policy to which the debit or credit relates, begins before 1 April 2017.
- (3) In sub-paragraph (2) “the later period” has the same meaning as in the regulations mentioned in that sub-paragraph.

Adjustments under Schedule 7 to F(No.2)A 2015

- 25 (1) For the purposes of Part 10 of TIOPA 2010 (as inserted by Parts 1 and 2 of this Schedule) a debit or credit to which this paragraph applies is to be ignored.
- (2) This paragraph applies to a debit or credit if –
- (a) it is brought into account for the purposes of Part 5 of CTA 2009 by virtue of paragraphs 115 and 116 of Schedule 7 to F(No.2)A 2015 (transitional adjustments relating to loan relationships), or
 - (b) it is brought into account for the purposes of Part 7 of CTA 2009 by virtue of paragraphs 119 and 120 of that Schedule (transitional adjustments relating to derivative contracts).

Power to make elections under Disregard Regulations for pre-1 April 2020 derivative contracts

- 26 (1) A company which is a member of a worldwide group for the purposes of Part 10 of TIOPA 2010 (as inserted by Parts 1 and 2 of this Schedule) may elect for the Disregard Regulations to have effect as if –

- (a) the company had made an election (“the disregard election”) under regulation 6A of those Regulations for the purposes of regulation 6(1)(a) of those Regulations,
 - (b) the disregard election applied to regulations 7, 8 and 9 of those Regulations, and
 - (c) the disregard election had effect in relation to derivative contracts entered into by the company before 1 April 2020.
- (2) The election has effect for the calculation under Part 10 of that Act of –
- (a) the tax-interest expense amounts and tax-interest income amounts of the company and any relevant transferee company, and
 - (b) the adjusted corporation tax earnings under section 402 of the company and any relevant transferee company.
- (3) A company is a “relevant transferee company” if regulation 6B or 6C of the Disregard Regulations applies in relation to the company as the transferee mentioned in the regulation (on the assumption that an election has been made before the transfer under this paragraph).
- (4) An election by a company under this paragraph has effect only if every company which was a member of the worldwide group on 1 April 2017 (other than a company which was dormant on that date or at the time the election is made) also makes an election under this paragraph.
- (5) An election under this paragraph –
- (a) must be made before 1 April 2018, and
 - (b) is irrevocable.
- (6) Section 443 of TIOPA 2010 (as inserted by Part 1 of this Schedule) is to apply in relation to debits resulting from an election under this paragraph.
- (7) In this paragraph “the Disregard Regulations” means the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004.

Making of elections under section 427 of TIOPA 2010

- 27 In the case of an accounting period of a company beginning on or before 31 December 2017, the company may make an election under section 427 of TIOPA 2010 (as inserted by Part 1 of this Schedule) on or before that date.

Commencement of orders or regulations containing consequential provision

- 28 (1) This paragraph applies in relation to any order or regulations made by the Treasury or Commissioners containing provision that is consequential on provision made by this Schedule.
- (2) Any order or regulations to which this paragraph applies may contain provision (however expressed) for securing that the consequential provision made by the order or regulations has effect in accordance with paragraph 23 (commencement) as if it were an amendment made by this Schedule.