

2014 No.

**CORPORATION TAX**

**The Loan Relationships and Derivative Contracts (Change of Accounting Practice) (Amendment) Regulations 2014**

*Made* - - - - - \*\*\*

*Laid before the House of Commons* \*\*\*

*Coming into force* - - - - - \*\*\*

The Treasury make the following Regulations in exercise of the powers conferred by sections 319 and 598 of the Corporation Tax Act 2009<sup>(a)</sup>.

**Citation, commencement and effect**

1.—(1) These Regulations may be cited as the Loan Relationships and Derivative Contracts (Change of Accounting Practice) (Amendment) Regulations 2014 and come into force on \*\*\* 2014.

(2) These Regulations have effect in relation to periods of account beginning on or after 1 January 2015.

**Amendments to the Loan Relationships and Derivative Contracts (Change of Accounting Practice) Regulations 2004**

2. The Loan Relationships and Derivative Contracts (Change of Accounting Practice) Regulations 2004<sup>(b)</sup> are amended as follows.

**Distressed debt**

3. In regulation 3C (prescribed debits and credits not brought into account)—

(a) in paragraph (2)—

(i) at the end of sub-paragraph (e) omit the “and”, and

(ii) after sub-paragraph (f) insert—

“, and

(g) credits in respect of the modification or replacement of a loan relationship specified paragraph (3B).”,

(b) after paragraph (3) insert—

“(3A) Debits in respect of the reversal of a credit specified in paragraph (2)(g) shall not be brought into account in determining a company’s profit or loss for any period.

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<sup>(a)</sup> 2009 c. 4.

<sup>(b)</sup> S.I. 2004/3256, relevantly amended by S.I. 2005/3383, 2006/3238, 2007/950, 2007/3432 and 2008/3237.

(3B) A loan relationship is specified if—

- (a) the company is party to the relationship as debtor,
- (b) the debtor relationship is modified or replaced by another, and
- (c) the modification or replacement is part of arrangements in respect of which it is reasonable to assume that, but for the arrangements, the company would, within one year of the date of the modification or replacement, have met one of the insolvency conditions in section 322(6) of CTA 2009.”

## Definitions and updating statutory references

4.—(1) In regulation 2—

- (a) after the definition of “amortised cost basis of accounting” insert—

““CTA 2009” means the Corporation Tax Act 2009;

“CTA 2010” means the Corporation Tax Act 2010;”;

- (b) in the definition of “amortised cost basis of accounting”, for “section 103(1) of the Finance Act 1996”<sup>(a)</sup> substitute “section 313(4) of CTA 2009”;
- (c) in the definition of “earlier period” and “later period”, for “paragraph 19A of Schedule 9 to the Finance Act 1996”<sup>(b)</sup> substitute “section 315(2) of CTA 2009”;
- (d) in the definition of “exchange gains and losses”<sup>(c)</sup>—
  - (i) for “sections 103(1A) and 103(1B) of the Finance Act 1996” substitute “section 475 of CTA 2009”<sup>(d)</sup>;
  - (ii) for “paragraphs 54(2) and (3) of Schedule 26 to the Finance Act 2002” substitute “section 705 of CTA 2009”;
- (e) in the definition of “fair value accounting”, for “section 103(1) of the Finance Act 1996”<sup>(e)</sup> substitute “section 313(5) of CTA 2009”;
- (f) in the definition of “impairment” and “impairment loss”, for “section 103(1) of the Finance Act 1996” substitute “section 476(1) of CTA 2009”;
- (g) in the definition of “qualifying transfer”<sup>(f)</sup>, for “section 343(1) of the Income and Corporation Taxes Act 1988 (company reconstruction without a change of ownership)”<sup>(g)</sup> substitute “Chapter 1 of Part 22 of CTA 2010”<sup>(h)</sup>;
- (h) in the definition of “successor”, for “section 343(1) of the Income and Corporation Taxes Act 1988” substitute “section 940B(4) of CTA 2010”<sup>(i)</sup>.

(2) In regulation 3B(10)<sup>(j)</sup>—

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<sup>(a)</sup> 1996 c. 8. Section 103(1) was amended by section 52 of, and paragraph 17 of Schedule 10 to, the Finance Act 2004 (c. 12).

<sup>(b)</sup> Paragraph 19A was inserted by section 52 of, and paragraph 36 of Schedule 10 to, the Finance Act 2004.

<sup>(c)</sup> Definition inserted by S.I. 2008/3237.

<sup>(d)</sup> Sub-sections (1A) and (1B) were inserted by section 79 of, and paragraph 7 of Schedule 23 to, the Finance Act 2002 (c. 23).

<sup>(e)</sup> Section 103(1) was amended by section 52 of, and paragraph 17 of Schedule 10 to, the Finance Act 2004.

<sup>(f)</sup> Definition inserted by S.I. 2007/3432.

<sup>(g)</sup> 1988 c. 1.

<sup>(h)</sup> 2010 c. 4.

<sup>(i)</sup> Renumbered as section 940B by section 30 of, and paragraph 3 of Schedule 5 to, the Finance Act 2011 (c. 11).

<sup>(j)</sup> Regulation 3B was inserted by S.I. 2005/3383 and substituted by S.I. 2007/3432.

- (a) in the definition of “bank”, for “section 840A of the Income and Corporation Taxes Act 1988”<sup>(a)</sup> substitute “section 1120(2) of CTA 2010”;
  - (b) in the definition of “building society”, for “section 832(1) of that Act” substitute “section 1119 of that Act”;
  - (c) in the definition of “carrying value”, for paragraph 19A(4A) of Schedule 9 to the Finance Act 1996<sup>(b)</sup> substitute “section 317 of CTA 2009”.
- (3) In regulation 3C<sup>(c)</sup>—
- (a) in paragraph (2)(b), for “paragraph 45L of Schedule 26 to the Finance Act 2002 (derivatives not embedded in a loan relationship)”<sup>(d)</sup> substitute “section 616 of CTA 2009”;
  - (b) in paragraph (2)(ca)(ii)<sup>(e)</sup>, for “paragraph 16(3) of Schedule 26 to Finance Act 2002”<sup>(f)</sup> substitute “section 606(3) of CTA 2009”<sup>(g)</sup>;
  - (c) in paragraph (2)(da)(ii)<sup>(h)</sup>, for “section 84A(3) of the Finance Act 1996”<sup>(i)</sup> substitute “section 328(3) of CTA 2009”;
  - (d) in paragraph (4)—
    - (i) in the definition of “functional currency”, for “section 92E(3) of the Finance Act 1993”<sup>(j)</sup> substitute “section 17(4) of CTA 2010”;
    - (ii) in the definition of “underlying subject matter”<sup>(k)</sup>, for “paragraph 11 of Schedule 26 to the Finance Act 2002”<sup>(l)</sup> substitute “section 583 of CTA 2009”.
- (4) In regulation 4(1)—
- (a) in subparagraph (a), for “section 85B(1)(b) of the Finance Act 1996 (amounts recognised in determining company’s profit or loss)”<sup>(m)</sup> substitute “section 308(1)(b) of CTA 2009”;
  - (b) in subparagraph (b), for “paragraph 19A(3) of Schedule 9 to the Finance Act 1996 (adjustment on change of accounting policy)” substitute “section 316 of CTA 2009”;
  - (c) in subparagraph (c), for “paragraph 17B(1)(b) of Schedule 26 to the Finance Act 2002 (amounts recognised in determining company’s profit or loss)”<sup>(n)</sup> substitute “section 597(1)(b) of CTA 2009”;

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<sup>(a)</sup> Section 840A was inserted by paragraph 1 of Schedule 37 to the Finance Act 1996 and amended by section 281 of, and paragraph 36 of Schedule 35 to, the Finance Act 2004, section 1027 of, and paragraph 226 of Schedule 1 to, the Income Tax Act 2007 (c. 11), S.I. 2001/3629 and S.I. 2002/1409.

<sup>(b)</sup> Sub-paragraph (4A) was inserted by section 80 of, and paragraph 31 of Schedule 4 to, the Finance Act 2005 (c. 7).

<sup>(c)</sup> Regulation 3C was inserted by S.I. 2005/3383.

<sup>(d)</sup> Paragraph 45L inserted by S.I. 2004/3270 and amended by S.I. 2005/2082 and S.I. 2005/3440.

<sup>(e)</sup> Sub-paragraph (ca) was inserted by S.I. 2008/3237.

<sup>(f)</sup> Sub-paragraph (3) was substituted by section 52 of, and paragraph 48 of Schedule 10 to, the Finance Act 2004.

<sup>(g)</sup> Section 606 was amended by section 43 of, and paragraph 5 of Schedule 21 to, the Finance Act 2009 (c. 10).

<sup>(h)</sup> Sub-paragraph (da) was inserted by S.I. 2008/3237.

<sup>(i)</sup> Section 84A was inserted by section 79 of, and paragraph 3 of Schedule 23 to, the Finance Act 2002. Sub-section (3) was substituted by section 52 of, and paragraph 2 of Schedule 10 to, the Finance Act 2004.

<sup>(j)</sup> 1993 c. 34. Section 92E was inserted by section 52 of, and paragraph 77 of Schedule 10 to, the Finance Act 2004.

<sup>(k)</sup> Definition inserted by S.I. 2008/3237.

<sup>(l)</sup> Paragraph 11 was amended by S.I. 2004/2201.

<sup>(m)</sup> Section 85B was substituted by section 52 of, and paragraph 3 of Schedule 10 to, the Finance Act 2004.

<sup>(n)</sup> Paragraph 17B was substituted by section 52 of, and paragraph 50 of Schedule 10 to, the Finance Act 2004.

- (d) in subparagraph (d), for “paragraph 50A(2) of Schedule 26 to the Finance Act 2002 (adjustment on change of accounting policy)”<sup>(a)</sup> substitute “section 614 of CTA 2009”.

(5) In regulation 5—

- (a) in paragraph (1), for “Chapter 2 of Part 4 of the Finance Act 1996” substitute “Part 5 of CTA 2009”;
- (b) in paragraph (2), for “section 85B(1) of the Finance Act 1996” substitute “section 308(1) of CTA 2009”.

*Name*

*Name*

Date

Two of the Lords Commissioners of Her Majesty’s Treasury

### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations amend the Loan Relationships and Derivative Contracts (Change of Accounting Practice) Regulations 2004 (“the principal Regulations”) which make provision for certain debits and credits not to be brought into account in the first accounting period of a company beginning on or after 1st January 2005, and for those debits and credits instead to be brought into account over a ten year period (beginning with the first period of account on or after 1st January 2006), or not to be brought into account for any period.

Regulation 1 provides for citation, commencement and effect. Authority for the limited retrospective effect of these Regulations is given by....

Regulation 2 introduces the amendments.

Regulation 3 amends regulation 3C (prescribed debits and credits not brought into account) to extend the classes of specified debits and credits which are not to be brought into account in determining a company’s profit or loss for any period to cases where a loan relationship is modified where debtor company is in financial difficulties.

Regulation 4 inserts definitions and updates the statutory references in the Regulations.

A [Tax Information and Impact Note \(TIIN\)](#) covering this instrument will be published on GOV.UK.

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<sup>(a)</sup> Paragraph 50A was inserted by section 52 of, and paragraph 67 of Schedule 10 to, the Finance Act 2004.