



Taxation of Corporate Debt and Derivative Contracts Amendments to the Change of Accounting Practice Regulations 2004

Who is likely to be affected?

Companies which are subject to the corporation tax rules on loan relationships and derivative contracts.

General description of the measure

The measure amends the operation of the Change of Accounting Practice Regulations¹. This preserves the treatment of certain debt following a change in accounting practice where there has previously been a corporate rescue.

Policy objective

This measure supports the Government's objective of establishing a simpler, more certain and more robust tax system. This measure looks to ease the impact of accountancy changes that become mandatory for many companies from 1 January 2015.

Background to the measure

At Budget 2013 the Government announced a review of the legislation governing the taxation of corporate debt and derivative contracts. On 6 June 2013 a consultation document *Modernising the taxation of corporate debt and derivative contracts* was published, and informal consultation has continued since then. The Government's response to the consultation was published on 10 December 2013. The Government published a technical note on 8 April 2014.

Detailed proposal

Operative date

This measure will have effect for periods of account commencing on or after 1 January 2015.

Current law

Part 5 of the Corporation Tax Act 2009 contains provision which govern how companies are taxed on their loan relationships. The tax treatment is heavily based on the accounting treatment adopted by the company in respect of its loan relationships. Changes in the accounting treatment can therefore have a significant effect on how a company is taxed.

Where, as a result of a change in accounting policy, there is a change in the carrying value of a loan relationship this adjustment is generally taxed or relieved. The Change of Accounting Practice Regulations provide rules which govern the treatment of these transitional adjustments. In particular, certain adjustments are excluded from being brought into account and certain other adjustments are spread over a period of ten years.

¹ The Loan Relationship and Derivative Contract (Change of Accounting Practice) Regulations 2004 (S.I. 2004 / 3271)

Proposed revisions

This measure is being introduced through secondary legislation in advance of the main changes arising from the review, which will be included in Finance Bill 2015.

The Change of Accounting Practice Regulations will be amended by statutory instrument to preserve the treatment that arises under current accounting standards in the following circumstances.

Modification of debt as part of a corporate rescue

Where a company holds a loan payable that was the subject of a previous modification and the company adopts the new accounting standards it may be required to adjust the carrying value of the debt in its accounts.

Where the modification occurred as part of a corporate rescue of the company, the company will be excluded from bringing a credit into account on transition. In addition, no debits will be brought into account that represent the reversal of the excluded credit.

Statutory References

The statutory references to primary legislation in the Change of Accounting Practice Regulations will be updated following the introduction of the Corporation Tax Act 2009.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
		negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	No impact on individuals or households has been identified. The measure is concerned with corporate taxpayers only.				
Equalities impacts	No impact on equalities has been identified.				
Impact on business including civil society organisations	This measure looks to ease the impact of accountancy changes that become mandatory for many companies from 1 January 2015.				
Operational impact (£m) (HMRC or other)	The measure is not expected to have any significant impact.				
Other impacts	<u>Small and micro business assessment</u> : no material impact is anticipated on small companies, whose current interaction with the loan relationships/derivative contracts regimes is generally straightforward.				

	Other impacts have been considered and none have been identified.
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Monitoring and evaluation

The measure will be monitored through information received from company tax returns and tax administrative data and through regular communication with affected businesses.

Further advice

If you have any questions about this change, please contact Richard Daniel on 03000 569408 (email: richard.daniel@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Financial Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.

