



Modernising the taxation of corporate debt and derivative contracts

Who is likely to be affected?

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

General description of the measure

The measure will amend the rules in Chapter 4 of Part 5, and Chapter 5 of Part 7, of the Corporation Tax Act 2009 (CTA 2009) that apply to groups of companies. The changes will amend the 'de-grouping' provisions in those chapters that apply when a company to which a loan relationship or derivative contract has been transferred (a 'transferee company') ceases to be a member of the group.

Policy objective

This measure supports the Government's objective of establishing a simpler, more certain and more robust tax system.

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.

This measure is being introduced in Finance Bill 2014 in advance of the main changes arising from this review, which will be included in Finance Bill 2015.

Detailed proposal

Operative date

This measure will have effect where a company ceases to be a member of a group on or after 1 April 2014.

Current law

Chapter 4 of Part 5 of CTA 2009 contains provisions under which loan relationships are transferred from one company to another in the same group at a 'notional carrying value'. Equivalent provisions in Part 7 of CTA 2009 apply for the purposes of the rules on derivative contracts. These 'group continuity' rules ensure, broadly, that loan relationships and derivative contracts are transferred between two companies in the same group on a 'tax neutral' basis, that is without crystallising losses or bringing gains into charge. The profit or loss on the loan relationship or derivative is not brought into account for tax purposes until the instrument is finally disposed of out of the group.

Where a transferee company ceases to be a member of the group within six years of the date of the transfer, there is a deemed disposal and reacquisition of the asset or liability. The effect of this de-grouping charge is that an amount equal to the difference between the notional carrying value and the fair value of the loan relationship or derivative contract is brought into account for tax purposes.

In most cases the de-grouping charge applies only to bring credits, not debits, into charge.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to repeal the provisions in sections 345, 346, 631 and 632 CTA 2009 which have the effect of restricting the de-grouping charge to only bring into account credits and certain debits in very limited circumstances. Where a transferee company ceases to be a member of a group on or after 1 April 2014, the rules will apply to bring into account both credits and debits.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	negligible	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 is expected to have a negligible impact on businesses and civil society organisations. There may be some savings through revised legislation being easier to operate, and will affect a relatively small number of businesses.				
Operational impact (£m) (HMRC or other)	Revised legislation should be easier for HM Revenue & Customs to operate and reduce resource needed to combat attempted avoidance.				
Other impacts	<p><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.</p> <p>Other impacts have been considered and none have been identified.</p>				

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 Tony Sadler on 03000 585479 (email: tony.sadler@hmrc.gsi.gov.uk) or contact Richard Daniel on 03000 569408 (email: richard.daniel@hmrc.gsi.gov.uk).