



Avoidance schemes involving the transfer of corporate profits

Who is likely to be affected?

Groups of companies using tax avoidance arrangements in order to transfer profits.

General description of the measure

The measure blocks tax avoidance arrangements where profits are transferred between companies in the same group for tax avoidance purposes. It does not apply to any arrangement falling within section 695A of the Corporation Tax Act 2009 (CTA 2009) which came into effect from 5 December 2013 and relates specifically to derivative contracts, but it does apply to any arrangements that have been put in place to circumvent that provision.

Policy objective

This measure supports the Government's objectives of promoting fairness and tackling avoidance in the tax system. It ensures that where profits are transferred between companies for tax avoidance purposes, then corporation tax will be charged as though the profits had not been transferred.

Background to the measure

At Autumn Statement 2013, the Government announced a measure, with effect from 5 December 2013, to block avoidance schemes where deductions are claimed for payments between companies in the same group under derivative contracts which are linked to company profits.

This new measure complements the Autumn Statement 2013 (AS13) measure, as a broader response to arrangements that have the same economic characteristics as those affected by the AS13 measure but using a mechanism other than a derivative contract.

Detailed proposal

Operative date

This measure will apply to payments made on or after 19 March 2014 arising from arrangements entered into on any date.

Current law

The tax treatment in respect of restriction of deductions for dividends and other distributions is set out in Chapter 1, Part 20 of CTA 2009.

Section 695A denies relief for a payment that is, in substance, a payment made out of profits after they have been earned. That measure was a direct response to an arrangement entered into by certain groups that had been using swaps to transfer UK profit out of the UK tax net.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to create a new section 1305A in Chapter 1, Part 20 of CTA 2009 which will provide that when in substance, the profits of a group company are transferred to a different group company and a main purpose of the arrangements is to secure a tax advantage (whether by circumventing section 695A or otherwise) then for tax purposes the transfer will be regarded as not having taken place.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	+60	+80	+80	+85	+75
	These figures are set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
	This measure supports the Exchequer in its commitment to protect revenue				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will have no impacts on individuals and households – it only affects corporations.				
Equalities impacts	There are no impacts on any group which shares a protected characteristic.				
Impact on business including civil society organisations	This measure will have no impact on business and civil society organisations who are undertaking normal commercial transactions; it will only impact on the small number of businesses that are using the avoidance schemes.				
Operational impact (£m) (HMRC or other)	The costs to HM Revenue & Customs will be negligible.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

The measure will be monitored through monitoring of disclosures of new avoidance schemes to circumvent the measure, and through regular communication with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact Steven Tovey on 03000 542532 (email: steven.tovey@hmrc.gsi.gov.uk) or contact Chris Murrice on 03000 585953 (email: chris.murrice@hmrc.gsi.gov.uk).