



Modernising the taxation of corporate debt and derivative contracts

Who is likely to be affected?

Companies that are members of partnerships that hold loan relationships ('corporate partners').

General description of the measure

Legislation will be introduced in Finance Bill 2014 to amend the rules in Chapter 9 of Part 5 of the Corporation Tax Act 2009 ('CTA 09') that apply to partnerships with company members. The changes will consolidate the loan relationships rules in Part 5 of CTA 09 that apply to such partnerships, and establish a general principle that all the rules that apply in relation to companies that are party to loan relationships also apply to corporate partners in firms that are party to loan relationships. .

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 the review, which will be included in Finance Bill 2015.

Detailed proposal

Operative date

This measure will have effect on and after the date of Royal Assent for Finance Bill 2014.

Current law

- Chapter 9 of Part 5 of CTA 09 contains the provisions under which partnerships involving companies are taxed, and provides rules for calculating how loan relationship credits and debits of company partners are to be determined, including cases where there is lending between the company partner and the firm of which it is a member. Particular rules apply to company partners using fair value accounting, and to the treatment of exchange gains and losses.
- Chapter 18 of Part 5 of CTA 09 contains a number of other provisions relating to how the loan relationships rules apply to companies that are members of partnerships, including the application of the rules on connected persons, control and major interests.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to:

- Insert a new section 302(2A) in CTA 09 to establish that a corporate partner in a firm is party to a loan relationship held by the firm, to the extent of its share of the firm's debts.
- Repeal the legislation in Chapter 9 of Part 5 of CTA 09 and replace it with new provisions. These provisions establish that for all purposes of Part 5 a corporate partner is treated as party to a firm's debts, and all other assets, liabilities, rights and powers of the firm, to the extent of the share of the firm's profits apportioned to it in accordance with the firm's profit sharing arrangements.
- Repeal legislation in Chapter 18 of Part 5 of CTA 09 on connected persons, control and major interests that applies specifically to corporate members of partnerships

As with the current rules, loan relationship credits and debits are not to be calculated in accordance with the rules in section 1259 of CTA 09 that apply to the computation of corporation tax profits and losses of companies that are members of partnerships. Instead, credits and debits from loan relationships are calculated as if each company partner, separately and in place of the firm, is party to the firm's debts. Any provision in Part 5 of CTA 09 which applies by reference to the accounts of a company, in so far as it applies to a corporate partner, is taken to refer to the accounts of the firm.

Summary of impacts

Exchequer impact (£m)	2013-14	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.					
Operational impact (£m) (HMRC or other)	Revised legislation should be easier for HMRC to operate and reduce resource needed to combat attempted avoidance.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

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

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 Richard Daniel on 03000 569408 (email: richard.daniel@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Exchequer 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.



Modernising the taxation of corporate debt and derivative contracts

Who is likely to be affected?

Corporate investors with holdings in open ended investment companies (OEICs), unit trusts (UTs) or offshore funds (OFs) that are treated as creditor relationship rights in accordance with Chapter 3 of Part 6, Corporation Tax Act 2009 (CTA 09) (the 'bond fund' rules).

General description of the measure

Legislation will be introduced in Finance Bill 2014 to enhance existing anti-avoidance provisions at section 492 CTA 09 to prevent abuse of the bond fund rules. The legislation will also clarify the way that section 490 CTA 09 operates, and amend section 495 CTA 09 (Qualifying Holdings) with regard to certain fund of funds structures.

Policy objective

This measure supports the Government's objective of a fair tax system by countering tax avoidance arrangements in relation to the corporation tax treatment of companies' investments in certain collective investment schemes. It also clarifies certain aspects of the law, and provides for fairer treatment in certain prescribed circumstances.

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 the review, which will be included in Finance Bill 2015.

Detailed proposal

Operative date

This measure will have effect on and after the date on which Finance Bill 2014 receives Royal Assent.

Current law

- Under sections 490 and 493 Corporation Tax Act 2009 (CTA 2009), corporate investors are taxed on 'qualifying holdings' in OEICs, UTs and OFs as if they were creditor loan relationships within Part 5 of CTA 2009 if, at any time in the company's accounting period, the market value of 'qualifying investments' held by the fund exceeds 60 per cent of the market value of all its investments.
- Section 492 CTA 2009 requires debits and credits to be ignored in determining the amounts taxable on an investing company where an investment is made, or a liability incurred, or transactions entered into with the intention of reducing credits, or creating or increasing debits to be brought into account.

- Sections 494 and 495 CTA 2009 define 'qualifying investments' and provide commentary on "qualifying holdings" in an OEIC, UT or OF.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to:

- amend the anti-avoidance provision in section 492 CTA 2009 to cover cases where arrangements are entered into by an OEIC, UT or OF with a sole or a main purpose of seeking a tax advantage for a person;
- amend the definition of a 'qualifying holding' in section 495 CTA 2009 so that the rule in section 490 cannot be sidestepped by holding debt-type assets through a series of funds and
- consolidate the changes made to section 490 CTA 2009 by regulation 8 of SI2012/519 into the section itself and extend them so that distributions from any fund (not just authorised investment funds) within section 490 will be taken into account in the calculation of loan relationship debits and credits, even where they would, apart from section 490 CTA 2009, be treated as exempt dividends or annual payments.
- Separately, HMRC will consult further on proposals to permit companies to make a claim that section 490 CTA 2009 should not apply in certain prescribed circumstances, and to remove non-exempt unauthorised unit trusts from the scope of the bond fund rules. Any changes will be made in secondary legislation under existing powers in sections 17(3) and 18 Finance (No. 2) Act 2005, and section 217 Finance Act 2013.

Summary of impacts

Exchequer impact (£m)	2013-14	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.					
Operational impact (£m) (HMRC or other)	Revised legislation should be easier for HMRC to operate and reduce resource needed to combat attempted avoidance.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Chris Murrice on 03000 585953 (email: chris.murrice@hmrc.gsi.gov.uk) or Wayne Strangwood on 03000 585493 (email: wayne.a.strangwood@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Exchequer 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.

1 **Loan relationships: partnerships with company partners**

- (1) CTA 2009 is amended as follows.
- (2) In section 302 (meaning of “loan relationship”) after subsection (2) insert –
 - “(2A) See also section 380A (which, when read with subsection (1), provides that if a company is a partner in a firm, and a money debt arising from a transaction for the lending of money is owed by or to the firm, the company has a loan relationship by reference to a share of the debt).”
- (3) In Chapter 9 of Part 5 (loan relationships: partnerships involving companies) for sections 380 to 385 substitute –

“380A Partnerships involving companies

- (1) This section applies if a trade or other business is carried on by a firm, and in this section “partner” means partner in the firm.
- (2) This Part has effect –
 - (a) as if each partner, separately and in place of the firm and to the extent of that partner’s appropriate share, stood in the firm’s position as respects each money debt to which the firm is a party,
 - (b) as if each partner, separately and in place of the firm and to the extent of that partner’s appropriate share, stood in the firm’s position as respects any other property, rights, liabilities or powers held, incurred or exercisable for the firm’s purposes, and
 - (c) as if anything done by or in relation to the firm –
 - (i) is done by or in relation to each partner, or
 - (ii) if it can be apportioned, is done by or in relation to each partner to the extent of that partner’s appropriate share.
- (3) Accordingly, in a calculation under section 1259 in the case of the firm’s trade or other business, no credits or debits may be brought into account under this Part –
 - (a) in relation to any money debt to which the firm is a party, or
 - (b) in relation to any loan relationships that would fall to be treated for the purposes of the calculation as arising from any such money debt.
- (4) Where –
 - (a) a company that is a partner has any loan relationship as a result of the operation of subsection (2) in relation to a money debt to which the firm is a party, and
 - (b) any provision of this Part about determining credits, debits or other items in respect of the relationship would (were this subsection ignored) operate by reference to accounts of the company,

that provision is instead to operate in relation to the relationship by reference to accounts of the firm, and the amount of any of those items is to be determined by reference to the company’s appropriate share of the amount of the corresponding item in respect of that money debt.
- (5) If the firm –

- (a) draws up accounts otherwise than in accordance with generally accepted accounting practice, or
 - (b) does not draw up accounts at all,
 subsection (4) applies as if accounts had been drawn up in accordance with generally accepted accounting practice.
- (6) Subsection (2) has effect even where it results in a partner being treated as a counterparty to itself.
- (7) For the purposes of this section, a partner's "appropriate share" is, for any period of account of the firm, given by –

$$\frac{S}{PL}$$

where –

PL is the amount of any profit or loss of the firm for the period, and
S is so much of that amount as is apportioned to the partner in accordance with the firm's profit-sharing arrangements.

- (8) In the case of the general partner in a limited partnership which is a collective investment scheme, ignore anything attributed by subsection (2) to the general partner when determining for any of the purposes of this Part –
 - (a) whether a person controls, or is controlled by, another person,
 - (b) whether under section 466 there is a connection between two persons,
 - (c) whether two persons are connected (as defined by section 1122 of CTA 2010), or
 - (d) whether a person has a major interest in another person.

380B Lending between partners and the partnership

- (1) Where as a result of section 380A(2) a company that is a partner in a firm is treated as both creditor and debtor under a loan relationship, that relationship is treated for the purposes of this Part as a connected companies relationship.
- (2) If –
 - (a) that partner ("P") controls the firm, either alone or taken together with one or more other company partners connected with P, and
 - (b) as a result of section 380A(2) –
 - (i) P is treated as a creditor under a loan relationship and another company partner is treated as a debtor under that relationship, or
 - (ii) P is treated as a debtor under a loan relationship and another company partner is treated as a creditor under that relationship,
 the relationship is treated for the purposes of this Part as a connected companies relationship.
- (3) For the purposes of subsection (2)(a), a company partner is connected with P at any time in an accounting period if at that or any other time in the accounting period –
 - (a) one controls the other, or

- (b) both are under the control of the same person.
- (4) In subsections (2) and (3) “company partner” means a company that is a partner in the firm.
- (5) Section 472 (meaning of “control”) applies for the purposes of subsection (3) (but see section 1124 of CTA 2010 for the meaning of “control” in subsection (2)(a)).
- (4) Omit sections 313(2)(c), 398(3), 466(5), 467, 472(5) to (7) and 474(2) to (8).
- (5) In sections 328D(8) and 606D(8) (“operating currency” where company partner is deemed to be party to loan relationship) –
 - (a) omit “under”,
 - (b) in paragraph (a), for “section 381(2) and (3)” substitute “as a result of section 380A(2)”, and
 - (c) in paragraph (b), before “section 620(2)” insert “under”.
- (6) In section 466(1) for “467” substitute “468”.
- (7) In section 468(4) omit “or of section 467”.
- (8) In section 470(3) omit “(5),”.
- (9) In section 473(4) omit “or partnerships”.
- (10) In the title of section 474 omit “and partnerships”.
- (11) In Schedule 2, omit paragraph 71(1)(d).
- (12) In CTA 2010, omit paragraph 611 of Schedule 1.

2 Holdings treated as rights under loan relationships

- (1) CTA 2009 is amended as follows.
- (2) In section 465(3) (list of provisions under which certain distributions are not excluded from Part 5) before paragraph (a) insert –
 - “(za) section 490(2) (holdings in OEICs, unit trusts and offshore funds treated as rights under creditor relationships),”.
- (3) In section 490 (holding in an OEIC, unit trust or offshore fund treated as rights under a creditor relationship) for subsection (2) substitute –
 - “(2) The Corporation Tax Acts have effect for the accounting period in accordance with subsection (3) as if –
 - (a) the relevant holding were rights under a creditor relationship of the company, and
 - (b) any distribution in respect of the relevant holding were not a distribution (and accordingly is within Part 5).”
- (4) Omit section 490(4) and (5) (which are superseded by the new section 490(2)(b)).
- (5) For section 492 (rules about tax calculations in avoidance cases where holding comes within section 490) substitute –

“492 Holding coming within section 490: calculation to undo avoidance

- (1) Subsection (2) applies if –
 - (a) section 490 applies for an accounting period of a company to a relevant holding held by the company,
 - (b) a related fund enters into any arrangements, or arrangements are entered into that in whole or part relate to a related fund, and
 - (c) the main purpose or one of the main purposes of the arrangements is to obtain a tax advantage for a person.
- (2) The company must make adjustments to counteract any tax advantage connected in any way with the relevant holding that would (ignoring this section) be obtained by the company, or any other person, directly or indirectly in consequence of the arrangements or their being entered into.
- (3) The arrangements may be ones entered into at a time when the company does not hold the relevant holding; and any person referred to in subsection (1)(c) need not be identified when the arrangements are entered into.
- (4) The adjustments required by subsection (2) are such as are just and reasonable.
- (5) In this section –
 - “arrangements” includes any scheme, arrangement or understanding of any kind, whether or not legally enforceable, involving a single transaction or two or more transactions, and
 - “related fund” means –
 - (a) the open-ended investment company, unit trust scheme or offshore fund in which the relevant holding is held, or

- (b) an open-ended investment company, unit trust scheme or offshore fund in which a related fund has a holding.”
- (6) In section 495 (meaning of “qualifying holdings”) –
 - (a) in subsection (1) –
 - (i) for “would itself fail” substitute “itself fails”, and
 - (ii) omit “, even on the assumption in subsection (2)”, and
 - (b) omit subsection (2).
- (7) The amendments made by this section have effect in relation to accounting periods beginning on or after 1 April 2014.
- (8) For the purposes of subsection (7), an accounting period beginning before, and ending on or after, 1 April 2014 is to be treated as if so much of the period as falls before that date, and so much of the period as falls on or after that date, were separate accounting periods.
- (9) An apportionment for the purposes of subsection (8) must be made in accordance with section 1172 of CTA 2010 (time basis) or, if that method produces a result that is unjust or unreasonable, on a just and reasonable basis.

EXPLANATORY NOTE

LOAN RELATIONSHIPS: PARTNERSHIPS WITH COMPANY PARTNERS

SUMMARY

1. Clause x amends the corporation tax rules on loan relationships as they apply to a company that is a partner in a firm.

DETAILS OF THE CLAUSE

2. Subsection (1) of the clause introduces changes to the Corporation Tax Act 2009 (CTA 2009).

3. Subsection (2) of the clause inserts new section 302(2A) in CTA 2009. This refers to the amended rules in Chapter 9 of CTA 2009, which apply to a company partner in a firm that has a money debt. The new rules in Chapter 9 make it clear that section 302 applies to a company partner as it does to any other company, and the effect is that such a company has a loan relationship by reference to its share of the firm's debt.

4. Subsection (3) of the clause replaces the provisions in Chapter 9 of CTA 2009 (sections 380 to 385) with new section 380A and new section 380B.

5. Subsection (1) of new section 380A provides that the section applies where a firm carries on a trade or business, and that 'partner' means a partner in the firm.

6. Subsection (2) of new section 380A provides that Part 5 of CTA 2009, which contains the rules on loan relationships, has effect as if each partner is party to the debt held by the firm, and stands in the firm's shoes as respects any money debt or other property, rights, liabilities or powers of the firm, to the extent of that partner's 'appropriate share'. It also provides that anything done by or in relation to the firm is treated as if it were done by or in relation to the company partner, or where that matter can be apportioned, by the company partner to the extent of its 'appropriate share'.

7. The term 'appropriate share' is defined in subsection (7) of new section 380A, and means the share of any profit or loss apportioned to the partner in accordance with the firm's profit sharing arrangements for the period.

8. The effect of subsection (2) is that all the loan relationship rules in Part 5 of CTA 2009 including, for example, the rules on connection, control and major interest in Chapter 18 of Part 5, apply to a company partner in the same way as they do to any other company.

9. Subsections (3) and (4) of new section 380A deal with the way in which loan relationship credits and debits are calculated for a company partner as a consequence of subsection (2). The normal rules for calculating the corporation tax profits and losses of a company partner in section 1259 CTA 2009 are disapplied. Instead, where a company partner is treated as having a loan relationship by virtue of subsection (2), the rules in Part 5

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for determining loan relationship credits, debits and other items that normally apply by reference to a company's accounts, are to apply by reference to the firm's accounts.

10. Accordingly the company partner's credits and debits will be based on its share of the firm's profits and losses, and the operation of other rules will similarly be based on the firm's accounts. For example, foreign exchange gains and losses arising to a company partner will be determined in accordance with the firm's functional currency.

11. Subsection (5) of new section 380A requires the calculation of the company partner's profits and losses undertaken in accordance with subsection (4) to be based on the firm's accounts drawn up in accordance with generally accepted accounting practice (GAAP). If the firm does not prepare accounts in accordance with GAAP, including where it does not prepare accounts at all, then the partnership provision applies as if the firm had prepared GAAP-compliant accounts.

12. Subsection (6) of new section 380A provides that the provisions of new section 380A apply even where their consequence is that the company partner is a counterparty to itself. This will be the case, for example, where a company lends money to a firm in which it is a partner, and is treated as party to a share of that debt by virtue of the principle set out in new section 380A that each partner stands in the firm's shoes to the extent of its appropriate share.

13. Subsection (8) of new section 380A disapplies the provisions of new section 380A in relation to companies that are general partners in limited partnerships that are collective investment schemes, for the purposes of the rules determining whether companies are connected, or controlled by the same person, or whether a person has a major interest in a company.

14. New section 380B deals with cases where there is lending between a partnership and one of its partners. In most cases, the rules in new section 380A mean that Part 5 of CTA 2009 will apply as if, instead, there were lending between that partner and each of the partners individually, and as if the amount of the lending in each case were the appropriate share of the actual lending.

15. Subsection (1) of new section 380B provides that where the rules in new section 380A result in a company partner being a creditor and debtor to the same loan relationship (which will be the position where the company partner is the one lending to or borrowing from the firm), that relationship is treated as a connected companies relationship. The rules in Part 5 that apply to such loan relationships, including the requirement to use the amortised cost basis of accounting and the exclusion of debits and credits relating to impairment and releases, therefore apply to company partner's share of the firm's debt.

16. Subsection (2) of new section 380B provides that if the partner who is lending to or borrowing from the firm is someone who controls the firm, whether alone or with other company partners in the firm, that partner is treated as connected to each of the other company partners who, as a result of the rules in new section 380A, are treated as party to shares of the lending.

17. Subsections (4) to (12) make consequential changes to legislation in CTA 2009 and CTA 2010. These changes include the repeal or amendment of all or part of sections 466,

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467, 470, 472 and 474 of CTA 2009, as well as of other cross references to sections 380 to 385 which are replaced by new sections 380A and 380B.

BACKGROUND NOTE

18. At Budget 2013 the Government announced a review of the legislation governing the taxation of corporate debt ('loan relationships') and derivative contracts. The aim of the review is to make the legislation simpler and more certain, as well as more resistant to abuse. A consultation document *Modernising the taxation of corporate debt and derivative contracts* was published in June 2013, and the Government's response to the consultation was published in December 2013.

19. The consultation document reviewed and set out proposals for changes to a wide range of the provisions relating to loan relationships and derivative contracts. Subject to further consultation, it is envisaged that most of these changes will be included in Finance Bill 2015.

20. The consultation document proposed that certain changes would be introduced in Finance Bill 2014. These include certain of the loan relationship rules that apply to the taxation of companies that are members of partnerships.

21. This measure is based on and rationalises these rules by consolidating them in a new Chapter 9 of Part 5 of CTA 2009, and it establishes a core principle that the provisions of Part 5 apply to a company partner in a firm just as they do to any other company, but on the basis that the company partner has its share of the firm's loan relationships.

If you have any questions about this change, or comments on the legislation, please contact Tony Sadler on 03000 585479 (email: tony.sadler@hmrc.gsi.gov.uk) or Richard Daniel on 03000 569408 (email: richard.daniel@hmrc.gsi.gov.uk)

EXPLANATORY NOTE

CLAUSE X: HOLDINGS TREATED AS RIGHTS UNDER LOAN RELATIONSHIPS

SUMMARY

1. Clause X amends the legislation which applies to those holdings in unit trusts, open-ended investment companies (OEIC) and offshore funds which are treated as loan relationships. It extends the existing treatment of distributions from authorised investment funds, so that distributions from any type of fund in which a company has a relevant holding are not treated as distributions for corporation tax purposes, and so fall within the loan relationships legislation instead. It also introduces a new anti-avoidance provision which sets out that where a company has a holding in a fund which is treated as a loan relationship and arrangements are entered into to obtain a tax advantage for any person, then adjustments must be made to counteract that tax advantage.

DETAILS OF THE CLAUSE

2. Subsection (1) provides for amendments to the Corporation Tax Act 2009 (CTA 2009).
3. Subsection (2) adds a new subsection (3)(za) to section 465 (Exclusion of distributions except in tax avoidance cases). The new subsection adds holdings in funds which are treated as loan relationships under section 490(2) to the list of provisions under which some amounts are prevented from being distributions for corporation tax purposes.
4. Subsection (3) replaces subsection (2) of section 490 CTA 2009 with a new subsection (2). That subsection provides that where section 490 applies to a holding in an OEIC, unit trust, or offshore fund, then the relevant holding is treated as rights under a creditor loan relationship, and any distribution in respect of that holding is not a distribution and is therefore within Part 5.
5. Subsection (4) makes consequential repeals of subsections (4) and (5) of section 490.
6. Subsection (5) replaces section 492 CTA 2009 with a new section 492.
7. Section 492(1) sets out the circumstances in which the provision applies. Subsection 492(2) applies where section 490 applies to a relevant holding in a fund held by a company, where a related fund enters into any arrangements, and the main purpose or one of the main purposes of the arrangements is to obtain a tax advantage for any person.

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8. Section 492(2) provides that a holder of an interest in a bond fund must make adjustments to counteract any tax advantage that arises which is connected in any way with the arrangements mentioned in subsection 492(1).
9. Section 492(3) provides that the arrangements may be entered into at a time when the company does not hold the relevant holding, and that the person obtaining the tax advantage need not be identified when the arrangements are entered into.
10. Section 492(4) provides that the adjustments required are those which are just and reasonable.
11. Section 492(5) defines terms used in the legislation.
12. Subsection (6) of Clause X amends the definition of qualifying holdings in section 495 CTA 2009. It repeals subsection (2), which formerly restricted the categories of qualifying investment to be taken into account in deciding whether holdings in funds were qualifying holdings, and makes consequential amendments to subsection (1).
13. Subsections (7) to (9) of Clause X are commencement provisions. They provide that the amendments have effect for accounting periods beginning on or after 1 April 2014, and provide that for these purposes a new accounting period begins on 1 April 2014. Any apportionment may be made on a time basis, or a just and reasonable basis.

BACKGROUND NOTE

14. This clause introduces some minor clarifications and amendments of the provisions of Chapter 3 of Part 6 of CTA 2009 (the “bond fund rules”). The changes include the addition of a clause to clarify the way in which distributions are treated when the bond fund rules apply. The clause also amends the anti-avoidance provisions, to counteract avoidance schemes that exploit the bond fund rules. While those schemes are subject to a number of challenges by HMRC, the clause strengthens the anti-avoidance provisions within the bond fund rules specifically. The new provision will apply to any arrangements that relate to a bond fund, and allow a just and reasonable adjustment to be made to counteract a tax advantage obtained by the company holding the investment in the fund, or by any other person.
15. If you have any questions about this change or comments on the legislation, please contact Wayne Strangwood on 03000 585 493 (email: wayne.strangwood@gsi.gov.uk) or Roger Leslie on 03000 585 528 (email: roger.leslie@hmrc.gsi.gov.uk).