

*These notes refer to the Corporation Tax Act 2010  
(c.4) which received Royal Assent on 3 March 2010*

# CORPORATION TAX ACT 2010

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## EXPLANATORY NOTES

### INTRODUCTION

#### **Part 11: Charitable companies etc**

##### **Overview**

1428. This Part contains rules specific to charitable companies. It follows to a large extent the structure of Part 10 of ITA, and, like those provisions, is based on sections 505 to 506C of, and Schedule 20 to, ICTA, section 25 of FA 1990 and section 46 of FA 2000. It also rewrites certain provisions which have only ever applied for corporation tax purposes such as sections 507 and 508 of ICTA.

##### *Chapter 1: Introduction*

##### **Overview**

1429. This Chapter gives an overview of the Part and provides certain important definitions.

##### *Section 466: Overview of Part*

1430. This section sets out the scope of the Part.

##### *Section 467: Meaning of “charitable company”*

1431. This section defines “charitable company” for the purposes of this Part and is based on section 506(1) of ICTA, section 25(12) of FA 1990, section 46(6) of FA 2000 and section 83(5) of FA 2004.
1432. The effect of splitting the source legislation between income tax and corporation tax is that the income tax rules apply to charities constituted in the form of charitable trusts while the corporation tax rules apply to charitable companies.
1433. The definition of charitable company therefore includes charities constituted as unincorporated associations and charities incorporated by Royal Charter.
1434. A definition of a “charity” is included in section 1119 of this Act. The definition for income tax is in section 989 of ITA.

##### *Section 468: Meaning of “eligible body”*

1435. This section lists the institutions which are referred to in this Part as “eligible bodies”. It is based on section 507(1) of ICTA.

##### *Section 469: Conditions for qualifying as a scientific research association*

1436. This section sets out the conditions necessary for a company to qualify as a scientific research association (SRA) for the purposes of this Part. It is based on section 508(1) to (3) of ICTA.

**Section 470: Meaning of “research and development” in section 469.**

1437. This section applies the definition of “research and development” in section 1138. It is based on section 508(3) and (4).
1438. *Subsection (2)* follows the approach taken in section 1138 which draws on the regulatory power in section 1006 of ITA.

**Chapter 2: Gifts and other payments**

**Overview**

1439. This Chapter provides the rules on grossing up and exemptions for gifts and other payments paid by individuals and companies to charities and other bodies within this Part.

**Section 471: Gifts qualifying for gift aid relief: income tax treated as paid**

1440. This section deals with the income tax treated as paid when a charitable company receives gift aid donations from individuals. It is based on section 25(10) and (12) of FA 1990. The corresponding rule for income tax is in sections 520 of ITA.
1441. The company is treated as receiving a grossed up amount, and the tax treated as deducted from the gift is treated as paid by the charitable company.

**Section 472: Gifts qualifying for gift aid relief: corporation tax liability and exemption**

1442. This section sets out the charge to tax and exemption that can arise on gift aid payments received by a charitable company. It is based on section 505(1) of ICTA, section 25(10) and (12) of FA 1990 and section 83(4) of FA 2004. The corresponding rule for income tax is in section 521 of ITA save that this section incorporates the requirement to make a claim.
1443. The section imposes a freestanding charge to corporation tax on gift aid payments, unlike the source legislation which operates by treating the gifts as annual payments. The charge is on the grossed up amount. The section also sets out the exemption which normally applies if the charitable company uses the gifts for charitable purposes.
1444. *Subsection (4)* provides that a claim is necessary for an exemption.
1445. Claims are made either as required during the accounting period, for example to secure repayments of income tax treated as paid in relation to gift aid payments, or in a corporation tax self-assessment return. The need to make a claim ensures that there is a mechanism for appeals in the event of any dispute about the availability or amount of any exemption.
1446. The corporation tax self-assessment procedure means that a charitable company only need complete a tax return, and make the associated claims, if the charitable company is chargeable to tax or is required to do so by HMRC.
1447. The reference in section 505(1) of ICTA to claims being to the Board of Inland Revenue has been changed. Claims are simply to an officer of Revenue and Customs. See *Change 5* in Annex 1.
1448. *Subsection (5)* provides that if an individual makes a direction in a self-assessment return for a tax repayment to be paid as a gift to a charitable company, the company is treated as having made a claim.

***Section 473: Gifts of money from companies: corporation tax liability and exemption***

1449. This section sets out the charge to tax that can arise on gifts received by a charitable company from other companies which are not charities. It is based on section 339(4) and 505(1) of ICTA. The corresponding rule for income tax is in section 522 of ITA save that the requirement to make a claim has been incorporated into the section.
1450. As with section 472, this section imposes a freestanding charge to corporation tax on gifts.

***Section 474: Payments from other charities: corporation tax liability and exemption***

1451. This section prevents avoidance by charities of the restrictions on exemptions by routing non-charitable expenditure through other charities. It is based on section 505(1) and (2) of ICTA. The corresponding rule for income tax is in section 523 of ITA save that the requirement to make a claim has been incorporated into the section.
1452. The section operates by imposing a charge to tax on certain payments made by a charity to a charitable company. It also sets out the exemption which normally applies if the charitable company uses the payments for charitable purposes.
1453. Earlier drafts of *subsection (1)* added to the conditions (now paragraphs (a) to (c)) a further condition (paragraph (d)) that payment should not arise from a source outside the United Kingdom. This requirement has now been removed. It was unnecessary and subsection (1) now rewrites the law accurately as it stands. CTA 2009 replaced the reference to Schedule D Case III in section 505(2) of ICTA with a reference to the charge to corporation tax on income. The amendment made it clearer that the charge under section 505(2) is not limited to payments from a source in the United Kingdom.
1454. *Subsection (4)* makes it clear that section 494 of ITA, which deals with the grossing up of discretionary payments from trusts, takes precedence over this section where applicable.

***Section 475: Gifts qualifying for gift aid relief: income tax treated as paid and exemption***

1455. This section gives the treatment that applies when an eligible body receives gift aid donations from individuals. It is based on section 25(10) and (12) of FA 1990 and sections 505(1) and 507(1) of ICTA. The corresponding rule for income tax is in section 520 of ITA save that the exemption and the requirement to make a claim has been incorporated into the section.
1456. The company is treated as receiving a grossed up amount, and the tax treated as deducted from the gift is treated as paid by the charitable company.
1457. Subsection (7) treats eligible bodies as having made a claim for exemption in respect of gifts made under section 429(2) of ITA which are treated as qualifying donations under that Act. See *Change 31* in Annex 1.

***Section 476: Gifts of money from companies: exemption***

1458. This section gives the exemption that applies where an eligible body receives a gift of money from a company. It is based on sections 339(4), 505(1) and 507(1) of ICTA.

***Section 477: Gifts of money from companies: exemption***

1459. This section gives the exemption that applies where a scientific research association receives a gift of money from a company. It is based on sections 339(4), 505(1) and 508(1) of ICTA.

### **Chapter 3: Other exemptions**

#### **Overview**

1460. This Chapter deals with exemptions other than gifts and payments dealt with in Chapter 2.

#### **Section 478: Exemption for profits etc of charitable trades**

1461. This section sets out the exemption for trading profits of charitable companies. It is based on section 505(1) of ICTA. The corresponding rule for income tax is in section 524 of ITA.
1462. The exemption applies only if the trade is a charitable trade. This is defined in section 479.
1463. There is a difference between this section and the corresponding provision in ITA. Adjustment income (arising, for example, on a change of accounting basis) is an integral part of the trading profits of a company – see section 181 of CTA 2009. Charitable companies are entitled to the exemption on adjustment income on the same basis as their trading profits. The consequence is that, in contrast to ITA, there is no need for a change in the law to establish an exemption for adjustment income.
1464. This section does make it clear that, in the same way as the income tax legislation, post-cessation receipts (arising from what was a charitable trade) are exempt, in line with practice. Post-cessation receipt is defined by reference to Chapter 15 of Part 3 of CTA 2009. See *Change 32* in Annex 1.
1465. Exemptions for small-scale trades are dealt with separately in section 480.

#### **Section 479: Meaning of “charitable trade”**

1466. This section defines “charitable trade” for the purposes of the Part. It is based on section 505(1) and (1B) of ICTA. The corresponding rule for income tax is in section 525 of ITA.
1467. The source legislation in section 505(1)(e) of ICTA refers to the trade being carried on “in the United Kingdom or elsewhere”, and section 505(1)(e)(i) refers to it being exercised in the “actual” carrying out of a primary purpose. The words in inverted commas are omitted as they add nothing.
1468. The section differs slightly from its income tax counterpart in section 525 of ITA. For income tax the conditions must be met throughout the *basis period* for the relevant tax year to reflect the fact that the two time periods are not usually the same, and it clearly makes sense to test the condition by reference to the period in which the activity was being carried on. This is not necessary for corporation tax as the accounting period is both the basis period and the chargeable period.
1469. *Subsection (4)*, about making apportionments where different parts of a trade are treated as separate trades, makes specific mention of post-cessation receipts, but unlike the equivalent income tax provision there is no need for a specific apportionment for adjustment income. See *Change 32* in Annex 1 and the commentary on section 478.
1470. Any apportionments must be “just” as well as “reasonable”. Only the latter term appeared in the source legislation. See *Change 33* in Annex 1.

#### **Section 480: Exemption for profits of small-scale trades**

1471. This section provides an exemption for trading income, related adjustment income and post-cessation receipts in circumstances where the amount of income to be exempted under this section and the next is small, and provided the income is applied to the

purposes of the charitable company. It is based on section 46 of FA 2000. The corresponding rule for income tax is in section 526 of ITA.

1472. The exemption provided by this section applies only if the income is not otherwise exempt. So profits from primary purpose trading (including related adjustment income and post-cessation receipts) are exempt under section 478, whereas profits from a non-primary purpose trading activity (including related adjustment income and post-cessation receipts) may be exempt under this section.
1473. *Change 32* is not necessary here as post-cessation receipts from a “small trade” are already exempt because of the exemption in section 46 FA 2000 for income chargeable under Schedule D Case VI.
1474. The condition about the limit on the level of income for this exemption to apply is in section 482. For *Change 34* see commentary on section 482.

***Section 481: Exemption from charges under provisions to which section 1173 applies***

1475. This section provides an exemption for certain miscellaneous income and gains arising to a charitable company and applied to the purposes of the charitable company. It is based on section 46 of FA 2000. The corresponding rule for income tax is in section 527 of ITA.
1476. Section 834A of ICTA, which lists sources of income previously charged to tax under Schedule D Case VI, was inserted by paragraph 273 of Schedule 1 to CTA 2009. It is rewritten in this Act as section 1173. Now that the relief is by reference to the list in section 1173, some of the exclusions from the relief listed in the source legislation no longer need to be mentioned explicitly as they are not within the scope of section 1173. These are sections 703, 788 and 790 of ICTA, and paragraph 52(4) of Schedule 18 to FA 1998.
1477. *Subsection (2)* specifies the particular types of income and gains which cannot benefit from the exemption but which are within section 1173.
1478. The exemption provided by this section applies only if the income or gains are not otherwise exempt. So, for example, post-cessation primary purpose trading receipts are exempt under section 478 and post-cessation trading receipts from a non-primary purpose trading activity are exempt under section 480.
1479. The scope of this provision is therefore narrowed slightly in that post-cessation receipts from a primary purpose trade can now be exempt under section 478 whereas previously they could only be statutorily exempt under section 46 of FA 2000. (See *Change 32* in Annex 1 and the commentary on section 478.)
1480. The condition about the level of the income and gains is in section 482. For *Change 34* see commentary on section 482.

***Section 482: Condition as to trading and miscellaneous incoming resources***

1481. This section sets out the condition about the limit on the level of trading and miscellaneous incoming resources that has to be met if the exemptions in sections 480 and 481 are to apply. It is based on section 46 of FA 2000. The corresponding rule for income tax is in section 528 of ITA.
1482. The condition operates by reference to the incoming resources associated with the trading activity and miscellaneous transactions whose profits are not exempt under the other exemptions in this Part. The expression “incoming resources” is used instead of “gross income” because this accounting term is a more direct and accessible way of capturing the meaning of the income labelled “gross income” in the source legislation.

There are also related points of clarification. See *Change 34* in Annex 1. This change also affects sections 480 and 481 (see following paragraph).

1483. Trading incoming resources and miscellaneous incoming resources are defined in *subsections* (2) and (4) respectively. The “requisite limit” is defined in *subsection* (6). The total incoming resources must not exceed the limit set out in subsection (6)(a), but subsection (6)(b) ensures that the limit is never less than £5000 or greater than £50,000. Accordingly if a charitable company’s trading and miscellaneous incoming resources relating to its non-exempt activities for an accounting period are, say, £4500 it would qualify for the exemption (provided that all other conditions are met) under section 480 or 481, even if that amount exceeds 25% of its total incoming resources for the accounting period.
1484. Similarly if the incoming resources related to its non-exempt activities exceed £50,000 in an accounting period, the charitable company cannot benefit from the exemptions in section 480 or 481, even if this figure does not breach the 25% limit in subsection (6)(a).

### ***Section 483: Exemption for profits from fund-raising events***

1485. This section gives statutory effect to ESC C4 as it applies to charitable companies and voluntary organisations provided the profits in question are applied to charitable purposes or transferred to a charity. It is new. The corresponding rule for income tax is in section 529 of ITA.
1486. The fund-raising event has to fall within the exemption from VAT under Group 12 of Schedule 9 to the Value Added Tax Act 1994. That Schedule provides an exemption from VAT for the supply by a charity of goods and services in connection with an event that is organised primarily to raise money for itself or other charities. The Schedule defines “event” and places certain limits on the number of events that a charity can hold in the same location in any given year.
1487. See *Change 35* in Annex 1. This change also affects sections 490, 491 and 492.

### ***Section 484: Exemption for profits from lotteries***

1488. This section provides an exemption for lottery income provided the income is applied to the purposes of the charitable company. It is based on section 505(1) of ICTA. The corresponding rule for income tax is in section 530 of ITA.

### ***Section 485: Exemption for property income etc***

1489. This section sets out the exemption from corporation tax for property income and certain trading income arising from land, provided the income is applied to charitable purposes. It is based on section 505(1) of ICTA. The corresponding rule for income tax is in section 531 of ITA.
1490. The exemption applies if the income is chargeable to tax under either Part 3 or Part 4 of CTA 2009. *Subsection* (1) deals with income chargeable under Part 3 of CTA 2009 and *subsection* (2) with income chargeable under Part 4 of CTA 2009.
1491. There is no requirement for the trade to be exercised in the course of carrying on a primary purpose of the charitable company. Instead, the exemption applies if the income derives from land vested for charitable purposes. But if some of the land is vested for charitable purposes and some vested or held for other purposes (for example, as an investment to generate income for non-charitable purposes) it is necessary to allocate the profits of the single property business between the two parts. This reflects the approach of the exemption in the source legislation that looks to particular interests in land, rather than to one overall property business.



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1492. This makes the effect of the source legislation in section 505(1)(a) of ICTA explicit. There is no other income arising from land and chargeable to tax under Part 3 of CTA 2009 which is exempt under that provision.
1493. *Subsection (3)* provides an exemption from corporation tax for distributions from a United Kingdom REIT. The corresponding income tax exemption for this subsection is in section 531(2A) of ITA.
1494. The source legislation in section 505(1)(aa) of ICTA refers to exemption under Part 3 of CTA in respect of distributions to which section 121 of FA 2006 (rewritten in section 548) applies. Distributions to which section 121 of FA 2006 applies cannot be taxed as trading income and the reference to Part 3 of CTA has not therefore been rewritten.
1495. Section 505(1)(aa) of ICTA also refers to charging provisions in ITTOIA. These are not necessary for corporation tax and are not included in the rewritten legislation.
1496. The United Kingdom REIT rules are rewritten in Part 12 of this Act.

***Section 486: Exemption for investment income and non-trading profits from loan relationships***

1497. This section sets out the various categories of savings and investment income that qualify for exemption from corporation tax, provided the income is applied to charitable purposes. It is based on section 505(1) of ICTA. The corresponding rule for income tax is in section 532 of ITA.
1498. Interest and related amounts are exempted by reference to the loan relationships regime, and the reference to a non-trading profit on a loan relationship also encompasses income from derivative contracts.
1499. The reference to an “Act” in *subsection (1)* is extended to include references to Northern Ireland legislation by section 1119, and to Acts of the Scottish Parliament. See *Change 6* in Annex 1.
1500. Section 56(3)(c) of ICTA disapplies the charge to corporation tax on the disposal of rights to receive amounts under a certificate of deposit where profits or gains (other than trading profits) on the disposal arise to a charitable company and are applied for charitable purposes. But section 56(4A) provides that section 56 does not apply for corporation tax purposes except in relation to rights in existence before 1 April 1996. This is necessary because rights arising in or after April 1996 fall within the loan relationships legislation, now rewritten in Part 5 of CTA 2009. Section 56(3)(c) has been retained as a saving in Schedule 2 so that the disposal of pre-1996 rights are still exempt so far as they are applied to charitable purposes although subsequent rights fall within *subsection (2)(a)* of this section.

***Section 487: Exemption for public revenue dividends***

1501. This section provides an exemption for public revenue dividends used for the repair of certain places of worship. It is based on section 505(1) and (1A) of ICTA. The corresponding rule for income tax is in section 533 of ITA.

***Section 488: Exemption for certain miscellaneous income***

1502. This section provides an exemption from corporation tax for certain categories of miscellaneous income, provided the income is applied to charitable purposes. It is based on section 505(1) of ICTA. The corresponding rule for income tax is in section 536 of ITA.

1503. The reference to an “Act” in *subsection (1) (b)* is extended to include references to Northern Ireland legislation by section 1119, and to Acts of the Scottish Parliament. See *Change 6* in Annex 1.
1504. *Subsection (3)(c)* deals with income from intangible fixed assets that does not fall within Part 8 of CTA 2009 because the assets involved are “pre-FA 2002 assets”. Previously the only exemption that covered this type of income was the exemption for annual payments. This section broadens the exemption to encompass income that is not covered by another exemption (for example, as a trading receipt) and is not exempted by this section as an annual payment, in the same way as for income tax in section 536 ITA. See *Change 36* in Annex 1. This change also affects sections 490 and 491.
1505. Note that this extension to pre-FA 2002 assets only applies to what would be regarded as non-trading gains under Part 8 of CTA 2009. If the gains arise in respect of a pre-FA 2002 asset in the course of a non-charitable trade the exemption does not apply.

#### ***Section 489: Exemption for income from estates in administration***

1506. This section provides an exemption for estate income received by a charitable company provided the income is applied to the purposes of the charitable company. It is new. The corresponding rule for income tax is in section 537.
1507. Estate income is income from property held by the personal representatives of the estate of a deceased person on behalf of the beneficiaries of the estate. The personal representatives are liable to income tax on the income. The exemption provided by this section allows a charitable company to recover any income tax suffered by the personal representatives. See *Change 37* in Annex 1.

#### ***Section 490: Eligible bodies***

1508. This section extends certain of the exemptions to the five specified bodies defined as “eligible bodies” in section 468. It is based on section 507 of ICTA.
1509. Section 507 of ICTA grants to these bodies the exemptions under section 505 that would fall to be allowed to a charitable company if the whole of the charitable company’s income is applied to charitable purposes.
1510. The exemptions are listed in *subsection (3)*. The list includes exemption under section 483 and section 489. These are not part of the source legislation, which refers only to the exemptions under section 505 of ICTA, but they are brought into the purview of the exemptions for these bodies – see *Changes 35 and 37* in Annex 1. The broadening of the exemptions under section 478 in respect of post-cessation receipts, and under section 488 in respect of intangible fixed assets also has an effect – see *Changes 32 and 36* in Annex 1.
1511. The list does not include the exemption under section 487 as the conditions for this exemption are structured in a different way.

#### ***Section 491: Scientific research associations***

1512. This section brings scientific research associations (SRAs) within most of the exemptions in this Part. It is based on section 508(1) of ICTA.
1513. Like the bodies named in section 490, SRAs are assumed to have met the test regarding the purpose of their expenditure. The relevant exemptions are listed in *subsection (3)*. An SRA may itself be charitable and able to qualify under its own charitable status by meeting the necessary tests. Exemption under this section does not preclude that possibility, and equally a charitable SRA may still benefit from section 491.
1514. The broadening of the exemptions under section 478 in respect of post-cessation receipts, and under section 488 in respect of intangible fixed assets also has an effect



– see *Change 32* and *Change 36* in Annex 1. See also *Changes 36* and *37* in Annex 1 in respect of the exemptions in *subsection (3)*.

## **Chapter 4: Restrictions on exemptions**

### **Overview**

1515. This Chapter sets out the restrictions that may apply to the exemptions under Chapters 2 and 3. Restrictions arise where a charitable company incurs non-charitable expenditure. Non-charitable expenditure may also arise where a company makes payments to “substantial donors” (defined in section 502).

### **Section 492: Restrictions on exemptions**

1516. This section restricts exemptions if income of a charitable company is attributed to non-charitable expenditure. It is based on section 505(3) and (4) of ICTA. The corresponding rule for income tax is in section 539 of ITA.
1517. Certain exemptions have been extended or put onto a statutory footing:
- post-cessation receipts. See *Change 32* in Annex 1 and the commentary on section 478;
  - profits of fund-raising events. See *Change 35* in Annex 1 and the commentary on section 483; and
  - income from estates in administration. See *Change 37* in Annex 1 and the commentary on section 489.

The restrictions apply to these extended exemptions.

### **Section 493: The non-exempt amount**

1518. This section specifies how the non-exempt amount is calculated. It is based on section 505(3) and (4) of ICTA. The corresponding rule for income tax is in section 540 of ITA.
1519. The term “attributable income and gains” is defined in *subsection (3)*. This label replaces “relievable income and gains” as defined in section 505(3) of ICTA.
1520. *Subsection (5)* specifies that section 256(4) of TCGA is to be ignored in applying *subsection (3)(b)*. Section 256 of TCGA provides the exemption from capital gains tax for certain gains accruing to a charity. Schedule 1 to this Act amends section 256 of TCGA, adding subsections (3A), (7) and (8), and amending subsection (4) so that it applies to charitable companies as well as to charitable trusts. Schedule 1 also inserts sections 256C and 256D of TCGA, to deal with the interaction of this Act and the chargeable gains legislation as regards attributing income and gains to the non-exempt amount. It complements section 494. The headings to sections 256A and 256B of TCGA are amended to make it clear that they apply to charitable trusts only.

### **Section 494: Attributing income to the non-exempt amount**

1521. This section sets out how income is attributed to the non-exempt amount. It is based on section 505(4) of ICTA. The corresponding rule for income tax is in section 541 of ITA.
1522. It specifies that the non-exempt amount is to have attributed to it amounts of attributable income or amounts of attributable gains or a combination of both, until it is used up. The commentary on section 493 contains further detail about the amendments to TCGA 1992.

***Section 495: How income is attributed to the non-exempt amount***

1523. This section specifies that the charitable company can decide which items of what would otherwise be exempt income or chargeable gains should be treated as taxable. It is based on section 505(7) of ICTA. The corresponding rule for income tax is in section 542 of ITA.
1524. If the restrictions apply, an amount of income (or chargeable gains) equal to the non-exempt amount (of expenditure) must be identified (as calculated in accordance with section 493) in order to enable the charitable company to complete its tax return and self-assess its tax liability. This section provides the mechanism for the charitable company to specify the items or elements of income (such as trading income or investment income) which lose the benefit of exemption.
1525. If the charitable company has not specified the details within a period of 30 days from the date of a request, an officer of Revenue and Customs can decide. References to “the Board” have been replaced with “an officer of Revenue and Customs”. See *Change 5* in Annex 1.

***Section 496: Meaning of “non-charitable expenditure”***

1526. This section defines “non-charitable expenditure”. It is based on sections 506(1) and (4) and 506A(3) to (5) of ICTA. The corresponding rule for income tax is in section 543 of ITA.
1527. Section 506(1) of ICTA contains a definition of “charitable expenditure”, but neither expenditure itself nor “non-charitable expenditure” is defined explicitly. This section sets out the definition in some detail, to reflect practice and HMRC guidance. See *Change 38* in Annex 1, which also affects sections 497 and 498.
1528. [Schedule 2](#) to this Act contains a transitional provision to ensure that the pre-22 March 2006 rules continue to operate where appropriate.

***Section 497: Section 496: supplementary***

1529. This section applies relevant material located elsewhere to the definition of “non-charitable expenditure” (eg rules for computing trading losses) and provides interpretative material. It is new. The corresponding rule for income tax is in section 544 of ITA.
1530. *Change 38* in Annex 1 affects this section.

***Section 498: Section 496(1)(d): meaning of expenditure***

1531. This section provides interpretative material about the meaning of “expenditure”. It is new. The corresponding rule for income tax is in section 545 of ITA.
1532. *Change 38* in Annex 1 affects this section.
1533. *Subsection (1)* makes it clear that “expenditure” includes expenditure on the acquisition of capital assets. But expenditure on assets qualifying for capital allowances is taken account of in determining, for example, a trading loss and so is not included in expenditure within section 496(1)(d).

***Section 499: Section 496(1)(d): accounting period in which certain expenditure treated as incurred***

1534. This section specifies the accounting period to which expenditure relating to commitments (whether or not contractual in nature) that have been entered into is to be allocated for the purpose of operating the restrictions. It is based on section 506(2) of ICTA. The corresponding rule for income tax is in section 546 of ITA.

1535. This rule is rewritten in terms which make explicit reference to UKGAAP. See *Change 39* in Annex 1.

***Section 500: Section 496(1)(d): payment to body outside the UK***

1536. This section provides interpretative material about payments to a body outside the United Kingdom. It is based on section 506(3) of ICTA. The corresponding rule for income tax is in section 547 of ITA.
1537. The section makes it clear that the onus is on the charitable company to ensure that any payments to a body outside the United Kingdom are applied for charitable purposes. Otherwise the charitable company must classify the payments as “non-charitable expenditure”.

***Section 501: Section 496(1)(g) and (h): investments and loans***

1538. This section provides interpretation about the making of investments or loans. It is based on section 506(5) of ICTA. The corresponding rule for income tax is in section 548 of ITA.
1539. The section makes it clear that it is only the expenditure in the accounting period on making new investments and loans, or expenditure to fund net increases in such investments or loans, that is included in the calculation of non-charitable expenditure.

***Section 502: Transactions with substantial donors***

1540. This section defines “substantial donor transaction” and explains when a person is a substantial donor to a charitable company. It is based on sections 506A(1) and (2) and 506C(3) of ICTA. The corresponding rule for income tax is in section 549 of ITA.
1541. References to a charitable company include connected charities (see section 509) and references to a substantial donor include persons connected with the donor (see section 510(1)(a)).

***Section 503: Meaning of “relievable gift”***

1542. This section includes details of the sources of gifts that are “relievable gifts” for the purposes of the preceding section. It is based on section 506C(1) of ICTA. The corresponding rule for income tax is in section 550 of ITA.

***Section 504: Non-charitable expenditure in substantial donor transactions***

1543. This section specifies that certain amounts relating to substantial donor transactions are to be treated as non-charitable expenditure. It is based on sections 506A(3) to (5) and 506C(2) and (6) of ICTA. The corresponding rule for income tax is in section 551 of ITA.
1544. The source legislation specifies that certain matters are to be determined by the Commissioners for HMRC. References to “the Commissioners for Her Majesty’s Revenue and Customs” are replaced with references to “an officer of Revenue and Customs”. See *Change 5* in Annex 1, which also affects sections 507 and 510. The source legislation specifies that, on an appeal against an assessment, the tribunal may review a decision of the Commissioners, so section 510 specifies that the tribunal may affirm or replace a decision of an officer.

***Section 505: Adjustment if section 504(1) and (2) applied to single transaction***

1545. This section makes it clear that if both subsections (1) and (2) of section 504 apply to an amount, the effect is not duplicated to create more “non-charitable expenditure” than the total amount in question. It is based on section 506C(4) of ICTA. The corresponding rule for income tax is in section 552 of ITA.

**Section 506: Section 504: certain payments and benefits to be ignored**

1546. This section provides that, in determining the amount of non-charitable expenditure, payments or benefits arising from transactions relating to gift aid donations made by individuals or qualifying donations by companies are to be ignored in certain circumstances. It is based on section 506B(7) of ICTA. The corresponding rule for income tax is in section 553 of ITA.
1547. The payments or benefits are ignored if they would not prevent the donation being a “qualifying donation” by virtue of the rules concerning associated benefits provided to donors in section 416(7)(b) of ITA and section 191(7) of this Act.

**Section 507: Transactions: exceptions**

1548. This section specifies exceptions to the transactions caught by section 502. It is based on section 506B of ICTA. The corresponding rule for income tax is in section 554 of ITA.
1549. In particular, the section carves out of the substantial donor provisions transactions of an ordinary commercial nature between the parties.
1550. References to “the Commissioners for Her Majesty’s Revenue and Customs” and “the Commissioners” are replaced with references to “an officer of Revenue and Customs”. See *Change 5* in Annex 1.

**Section 508: Donors: exceptions**

1551. This section specifies exceptions to the donors caught by section 502. It is based on section 506B(8) and (9) of ICTA. The corresponding rule for income tax is in section 555 of ITA.
1552. *Subsection (1)* concerns companies set up by charitable companies, for example to carry on trading activities as a means of generating funds.
1553. *Subsection (2)* concerns registered social landlords and housing associations, which often share services and accommodation with charities as a means of meeting charitable and non-charitable objectives. Section 506B(9) of ICTA is prospectively amended by paragraph 15 of Schedule 9 to the Housing and Regeneration Act 2008 from a day to be appointed by Order (section 325(1) of that Act). This subsection incorporates that amendment with a saving in Schedule 2 to this Act to apply until the amendment made by paragraph 15 has effect.

**Section 509: Connected charities**

1554. This section extends, for the purposes of sections 502 to 508, the meaning of “charitable company” to include charities connected with the charitable company. It is based on section 506C(5) of ICTA. The corresponding rule for income tax is in section 556 of ITA.
1555. It covers, for example, situations where a charity decides to hold all its properties in one company and organise other charitable activities in another, or where two charities with different objects are managed by the same board of directors.
1556. Note that the term “connected” in this section applies to charities and charitable companies and is different from the use of the term in section 510 where it refers to substantial donors and other persons.
1557. *Subsection (2)* gives the definition of “connected” for subsection (1). The definition of “connected persons” in section 1122 does not apply for this purpose.

**Section 510: Substantial donor transactions: supplementary**

- 1558. This section provides interpretation for sections 502 to 508. It is based on section 506C(7) to (9) of ICTA. The corresponding rule for income tax is in section 557 of ITA.
- 1559. The use of the term “connected” relates to substantial donors and other persons and is different from the use of the term in section 509, where it refers to charities and charitable companies that are connected.
- 1560. The definition of “connected person” for the purposes of this section is in section 1122 (applied by section 1176).
- 1561. References to “the Commissioners” are replaced with references to “an officer of Revenue and Customs”. See *Change 5* in Annex 1.

**Section 511: Approved charitable investments**

- 1562. This section sets out which investments, including loans made by way of investment, count as approved charitable investments for the purposes of the rules restricting exemptions. It is based on Schedule 20 to ICTA. The corresponding rule for income tax is in section 558 of ITA.
- 1563. The label “approved charitable investment” replaces the label “qualifying investment” in section 506(4) of ICTA.
- 1564. Paragraph 2 of Schedule 20 to ICTA specifies investments falling within Schedule 1 to the Trustee Investments Act 1961 (TIA 1961) as approved, with a small exception. For trust law purposes TIA 1961 has been largely superseded by the Trustee Act 2000 (TA 2000). So the detail of investments covered by Schedule 1 to TIA 1961 is incorporated into the sections in an updated form, removing the need to refer to a Schedule to an Act (TIA 1961) that trustees no longer need to refer to for investment purposes. See *Change 40* in Annex 1, which also affects section 512 and section 513.
- 1565. The reference to securities traded on the Unlisted Securities Market has not been reproduced as the Unlisted Securities Market ceased trading in December 1996.
- 1566. Investments can qualify as approved charitable investments if, despite not falling into any of the specified types not requiring a claim, a claim is made and it is accepted by HMRC. In order to be accepted, the claimant must show that the investment is made for the benefit of the charitable company and is not made for the avoidance of tax.
- 1567. The source legislation includes a reference in paragraph 7(2) of Schedule 20 to ICTA to an “authorised institution” – which in the context of that paragraph clearly means a “bank”. “Authorised institution” was amended to read “bank” in paragraph 7(1) by Schedule 37 to FA 1996, but was not amended in paragraph 7(2) of Schedule 20 to ICTA. This was an oversight and is corrected here.
- 1568. Type 2 refers to common investment funds established under section 25 of the Charities Act (Northern Ireland) 1964. This section has been prospectively repealed by Schedule 29 of the Charities Act (Northern Ireland) 2008.
- 1569. The reference to an “Act” in Type 4 is extended to include references to Northern Ireland legislation by section 1119, and to Acts of the Scottish Parliament. See *Change 6* in Annex 1.
- 1570. Paragraph 9(2) of Schedule 20 to ICTA, which explains that a loan in sub-paragraph (1) (rewritten as Type 12 in this section) includes a loan which is secured by a mortgage or charge of any kind over land, has not been rewritten as unnecessary. It adds nothing to the meaning of “loan”.

1571. References to “the Board” have been replaced with “an officer of Revenue and Customs”. See *Change 5* in Annex 1.

***Section 512: Securities which are approved charitable investments***

1572. This section sets out details of which investments in securities count as approved charitable investments for the purposes of the rules restricting exemptions. It is based on Schedule 20 to ICTA and Schedule 1 to TIA 1961. The corresponding rule for income tax is in section 559 of ITA.
1573. The details of investments covered by Schedule 1 to TIA 1961 are incorporated into these sections in an updated form. See *Change 40* in Annex 1 and the commentary on section 511.

***Section 513: Conditions to be met for some securities***

1574. This section sets out details of certain conditions which some of the securities specified in the previous section have to meet to count as approved charitable investments for the purposes of the rules restricting exemptions. It is based on Schedule 1 to TIA 1961. The corresponding rule for income tax is in section 560 of ITA.
1575. The detail of the investments covered by Schedule 1 to TIA 1961 is incorporated into these sections in an updated form. See *Change 40* in Annex 1 and the commentary on section 511.
1576. *Subsection (8)* specifies (among other things) that a company acquiring control of another company or other companies is treated as having paid a dividend or dividends paid by the other company or companies. See *Change 40* in Annex 1.

***Section 514: Approved charitable loans***

1577. This section sets out which loans (not being made by way of investment) count as approved charitable loans for the purposes of the rules restricting exemptions. It is based on Schedule 20 to ICTA. The corresponding rule for income tax is in section 561 of ITA.
1578. The label “approved charitable loan” replaces the label “qualifying loan” in section 506(4) of ICTA.
1579. References to “the Board” are replaced with references to “an officer of Revenue and Customs”. See *Change 5* in Annex 1.

***Section 515: Excess expenditure treated as non-charitable expenditure of earlier periods***

1580. This section treats “excess expenditure” in an accounting period as non-charitable expenditure for earlier accounting periods. It is based on section 505(3) and (5) of ICTA. The corresponding rule for income tax is in section 562 of ITA.
1581. The “excess expenditure” is the amount of the non-charitable expenditure of the year in excess of the available income and gains of the accounting period.
1582. The term “available income and gains” is defined in *subsection (4)*. This label replaces “total income and gains” as defined in section 505(3) of ICTA.

***Section 516: Rules for attributing excess expenditure to earlier periods***

1583. This section specifies the earlier accounting periods to which the excess expenditure is to be attributed, later periods taking priority over earlier ones. It is based on section 505(5) and (6) of ICTA. The corresponding rule for income tax is in section 563 of ITA.



*These notes refer to the Corporation Tax Act 2010  
(c.4) which received Royal Assent on 3 March 2010*

1584. The amount of excess expenditure that can be attributed to an accounting period commencing before 22 March 2006 or earlier periods cannot exceed the amount that would have been attributed if the change in the method of calculating excess expenditure resulting from section 55 of FA 2006 had not been introduced. See the transitional provision in Part 12 of Schedule 2.

***Section 517: Adjustments in consequence of section 515***

1585. This section specifies that any necessary adjustments (eg to tax, interest etc) for earlier years may be made. It is based on section 505(5) of ICTA. The corresponding rule for income tax is in section 564 of ITA.