STATUTORY INSTRUMENTS

2005 No. 646

The Finance Act 2002, Schedule 26, Parts 2 and 9 (Amendment) Order 2005

Amendment of Part 9 of Schedule 26 to the Finance Act 2002

18. After paragraph 45L insert—

"Treatment of host contract as a loan relationship

45M.—(1) This paragraph applies where—

(a) a company is treated under paragraph 2(4) as party to a derivative contract,

(b) that contract is (within the meaning of paragraph 3(3)) treated for accounting purposes as a derivative financial instrument, and

(c) the underlying subject matter of that contract consists, or is treated as consisting, wholly of—

(i) shares in a company, or

(ii) rights of a unit holder under a unit trust scheme.

(2) Where this paragraph applies—

(a) the host contract shall be treated for the purposes of the Corporation Tax Acts as if it were a creditor relationship of the company which is a zero coupon bond, and

(b) the derivative contract shall be treated as satisfying the conditions in paragraph 4(2A).

(3) For the purposes of this paragraph a "zero coupon bond" is a security—

(a) whose issue price is less than the amount payable on redemption, and

(b) which does not provide for any amount to be payable by way of interest.

(4) Paragraph 9 applies for the purpose of determining whether the underlying subject matter is to be treated as consisting wholly of property referred to in sub-paragraph (1)(c).".